

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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In the Matter of: )  
 ) Docket No.: R2006-1  
POSTAL RATE AND FEE CHANGES )

VOLUME #3

Date: August 4, 2006  
Place: Washington, D.C.  
Pages: 245 through 420

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## POSTAL RATE COMMISSION

In the Matter of:                    )  
  )  
POSTAL RATE AND                    ) Docket No.: R2006-1  
FEE CHANGES                    )

Suite 200  
Postal Rate Commission  
901 New York Avenue, N.W.  
Washington, D.C.

Volume 3  
Friday, August 4, 2006

The above-entitled matter came on for hearing  
pursuant to notice, at 9:31 a.m.

## BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN  
HON. DAWN A. TISDALE, VICE-CHAIRMAN  
HON. TONY HAMMOND, COMMISSIONER  
HON. RUTH Y. GOLDWAY, COMMISSIONER

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On behalf of Magazine Publishers of America:

(No Appearance.)

On behalf of Time-Warner, Inc.:

(No Appearance.)

C O N T E N T S

## WITNESSES APPEARING:

MICHAEL W. MILLER

FREDERICK J. HINTENACH III

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
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P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN OMAS: Good morning. Before we begin this morning I'd like to make an announcement which I'm very happy to make.

Early this morning, about 12:45 this morning, my special assistant, Mark Acton, who you know has been nominated, was confirmed by the Senate last night. I'd like to wish him congratulations, and we look forward to having him here on the bench with us this week as soon as the papers are signed and everything. We'll swear him in, and we will have a full complement of Commissioners.

Congratulations, Mark. We're pleased to have you join us next week.

Good morning again. Today we continue hearings to receive the testimony of Postal Service witnesses in support of Docket No. R2006-1, request for rate and fee changes.

Does anyone have a procedural matter to discuss before we continue?

(No response.)

CHAIRMAN OMAS: Two witnesses are scheduled to appear today. They are Witnesses Miller and Hintenach. Mr. Miller will present T-20 first. Then

1 we will hear from Mr. Hintenach. After that, Mr.  
2 Miller will return to the stand to sponsor USPS-T-21.

3 Mr. Weidner, would you please identify the  
4 Postal witness so that I can swear him in?

5 MR. WEIDNER: The Postal Service calls  
6 Michael Miller.

7 CHAIRMAN OMAS: Mr. Miller, would you raise  
8 your right hand?

9 Whereupon,

10 MICHAEL W. MILLER

11 having been duly sworn, was called as a  
12 witness and was examined and testified as follows:

13 CHAIRMAN OMAS: Be seated.

14 (The document referred to was  
15 marked for identification as  
16 Exhibit No. USPS-T-20.)

17 DIRECT EXAMINATION

18 BY MR. WEIDNER:

19 Q Mr. Miller, before you are two copies of the  
20 Direct Testimony of Michael W. Miller on behalf of the  
21 United States Postal Service designated USPS-T-20 as  
22 revised on June 28, 2006.

23 Was that prepared by you or under your  
24 direction?

25 A Yes.

1           Q     Are there any Category II LR's, library  
2 references, associated with this testimony?

3           A     Yes.

4           Q     Are those USPS-LR-43 revised June 28, 2006,  
5 USPS-LR-44 and USPS-LR-L-45 revised July 28, 2006?

6           A     Yes.

7           MR. WEIDNER: Mr. Chairman, I will go and  
8 hand two copies of the direct testimony of Witness  
9 Miller, USPS-T-20, and its associated library  
10 references to the reporter and ask that it and its  
11 associated library references be entered into  
12 evidence.

13           CHAIRMAN OMAS: Is there any objection?

14           (No response.)

15           CHAIRMAN OMAS: Hearing none, I will direct  
16 counsel to provide the reporter with two copies of the  
17 corrected direct testimony of Michael W. Miller.

18           That testimony is received into evidence.  
19 However, as is our practice, it will not be  
20 transcribed.

21                               (The document referred to,  
22                               previously identified as  
23                               Exhibit No. USPS-T-1, was  
24                               received in evidence.)

25           CHAIRMAN OMAS: Mr. Miller, have you had an



1 opportunity to examine the packet of designated  
2 written cross-examination that was made available to  
3 you this morning?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN OMAS: If those questions contained  
6 in that packet were posed to you orally today, would  
7 your answers be the same as those previously provided  
8 in writing?

9 THE WITNESS: Yes, they would.

10 CHAIRMAN OMAS: Are there any additions or  
11 corrections you would like to make to those answers?

12 THE WITNESS: No.

13 CHAIRMAN OMAS: Counsel, would you please  
14 provide two copies of the corrected designated written  
15 cross-examination of Witness Miller to the reporter?

16 That material is received into evidence and  
17 is to be transcribed into the record.

18 (The document referred to was  
19 marked for identification as  
20 Exhibit No. USPS-T-20 and was  
21 received in evidence.)

22 //

23 //

24 //

25 //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

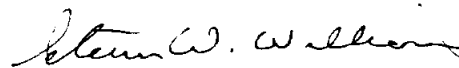
Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL W. MILLER  
(USPS-T-20)

<u>Party</u>	<u>Interrogatories</u>
Alliance of Nonprofit Mailers	MPA/USPS-T20-3-8
Magazine Publishers of America	MPA/USPS-T20-3-8
Office of the Consumer Advocate	MPA/USPS-T20-1-2, 5, 7 PSA/USPS-T20-1 PSA/USPS-T32-16 redirected to T20 TW/USPS-T20-1, 3
Postal Rate Commission	MPA/USPS-T20-1-8 PSA/USPS-T20-1 TW/USPS-T20-1-8, 10-12 VP/USPS-T20-1
Time Warner Inc.	TW/USPS-T20-1-8, 10-12
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/USPS-T20-1

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL W. MILLER (T-20)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

MPA/USPS-T20-1	OCA, PRC
MPA/USPS-T20-2	OCA, PRC
MPA/USPS-T20-3	ANM, MPA, PRC
MPA/USPS-T20-4	ANM, MPA, PRC
MPA/USPS-T20-5	ANM, MPA, OCA, PRC
MPA/USPS-T20-6	ANM, MPA, PRC
MPA/USPS-T20-7	ANM, MPA, OCA, PRC
MPA/USPS-T20-8	ANM, MPA, PRC
PSA/USPS-T20-1	OCA, PRC
PSA/USPS-T32-16 redirected to T20	OCA
TW/USPS-T20-1	OCA, PRC, TW
TW/USPS-T20-2	PRC, TW
TW/USPS-T20-3	OCA, PRC, TW
TW/USPS-T20-4	PRC, TW
TW/USPS-T20-5	PRC, TW
TW/USPS-T20-6	PRC, TW
TW/USPS-T20-7	PRC, TW
TW/USPS-T20-8	PRC, TW
TW/USPS-T20-10	PRC, TW
TW/USPS-T20-11	PRC, TW
TW/USPS-T20-12	PRC, TW
VP/USPS-T20-1	PRC, Valpak

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THE MAGAZINE PUBLISHERS OF AMERICA, INC., AND THE ALLIANCE OF  
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**MPA/USPS-T20-1.** Please refer to USPS-LR-L-43, PER OC FLATS.XLS, '5D AUTO COST,' '5D NONAUTO COST,' and 'COVERAGE FACTORS' and USPS-LR-J-61, PERIOD.XLS, '5D AUTO COST,' '5D NONAUTO COST,' and 'COVERAGE FACTORS.'

- (a) Please confirm that USPS-LR-L-43 estimates that, in FY 2008, 1,587 out of every 10,000 5-Digit Automation Flats and 1,813 out of every 10,000 5-Digit Nonautomation Flats will receive a manual incoming secondary sort. If not confirmed, please provide the correct figure.
- (b) Please confirm that USPS-LR-J-61 estimated that, in FY 2003, 5,717 of every 10,000 5-Digit Automation Flats and 7,170 out of every 10,000 5-Digit Nonautomation Flats received a manual incoming secondary sort. If not confirmed, please provide the correct figure.
- (c) Please explain the meaning of the "Incoming Secondary Machinable Flats" coverage factors in USPS-LR-J-61 and how these factors are used in determining the percentage of flats that receive manual incoming secondary sorts.
- (d) Please confirm that the source of the "Incoming Secondary Machinable Flats" coverage factors in USPS-LR-J-61 was "Operations estimate" and explain how Operations derived these estimates.
- (e) Please confirm that USPS-LR-L-43 does not contain "Incoming Secondary Machinable Flats" coverage factors. If not confirmed, please provide a citation to the information. If confirmed, please explain why USPS-LR-L-43 does not contain these coverage factors.
- (f) Please provide a version of USPS-LR-L-43 that includes the capability to analyze the effect of changes in "Incoming Secondary Machinable Flats" coverage factors on the flow of Periodicals Outside County flats and the resulting presort cost avoidances.

**RESPONSE:**

(a) It can be confirmed that 1,587 pieces and 1,813 pieces are "flowed" through the manual incoming secondary operation in the USPS-LR-L-43 Periodicals Outside County automation 5-digit cost model and nonautomation 5-digit cost model, respectively.

(b) It can be confirmed that 5,717 pieces and 7,170 pieces were "flowed" through the manual incoming secondary operation in the USPS-LR-J-61 Periodicals Outside County automation 5-digit cost model and nonautomation 5-digit cost model, respectively.

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(c) Please see Docket No. R2001-1, USPS-T-24, page 9, lines 20-21. The AFSM100/FSM881 factor was used to determine the amount of machinable (i.e., AFSM100/FSM881 compatible) mail that was processed in automated/mechanized incoming secondary flats sorting operations. For machinable mail not processed through the AFSM100/FSM881 incoming secondary operations, it was assumed that the mail was processed manually. The manual factor was therefore 100 percent minus 65 percent, or 35 percent. These factors were applied to candidate machinable incoming secondary mail volume as a means to determine the amount of mail to be processed through each individual operation (AFSM100, FSM881, and manual)

(d) Confirmed. For an explanation of how those estimates were derived, please see Docket No. R2001-1, Tr. 9/2356-2358 (response of witness Kingsley to POSTCOM/USPS-T39-9).

(e) Confirmed. Between Docket Nos. R2001-1 and R2005-1, I re-evaluated the usage of these coverage factors and made the decision to remove them because, in my opinion: (1) we did not have sufficient data to support their usage, (2) they could not accurately be applied, (3) such factors were affected by issues unrelated to mailer prebarcoding and presorting efforts (e.g., whether or not a given ZIP Code was processed on automation/mechanization), and (4) they did not have a significant impact on the prebarcoding and/or presorting cost differences by rate category, which was the purpose for which my cost models were developed.

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(f) I am unable to do so because I have not been able to determine how to apply such factors in a way that provides any meaningful results, for the reasons discussed in my answer to part (e) above. Furthermore, as they pertain to my testimony, the Periodicals Outside County rates are determined by whether or not a mailer chooses to prebarcode and/or presort their mail. My testimony and cost models have therefore been developed to estimate rate category costs and cost differences related to mailer prebarcoding and presorting activities. The manner in which incoming secondary operations are performed is not a determinant for Periodicals Outside County rates. If an analyst desired to conduct a cost analysis related to incoming secondary processing methods, I would suggest doing so at the operation level. For example, operation level model cost estimates for incoming secondary piece distribution operations can be found in USPS-LR-L-43, page 46, cells K66:K70.

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**MPA/USPS-T20-2.** Please refer to lines one through 8 on page 26 of USPS-T-42, where the following statement appears:

"Bundle integrity can have a significant impact on the productivity of any bundle sorting operation. If and when a bundle breaks prematurely, the value of the bundle presort can be partially or completely lost, and the bundle may require distribution in a residual distribution operation. Also, productivity can suffer when, for example, a mailhandler attempts to capture and repair a ruptured bundle within the bundle sorting operation."

Please also refer to USPS-LR-L-43, PER OC FLATS.XLS, 'Bundle Data.'

- (a) Does USPS-LR-L-43 explicitly model all of the impacts of bundle breakage on productivity described in the cited passage from witness McCreary's testimony? If not, please list which ones are reflected in your model, and which are not.
- (b) Please confirm that the initial bundle breakage factor in USPS-LR-L-43 for sacked mail is 15.9 times as large as the initial breakage rate in USPS-LR-L-43 for palletized mail. If not confirmed, please explain fully.
- (c) Please confirm that setting all of the initial bundle breakage factors in USPS-LR-L-43 to 17.5% (the initial bundle breakage factor for sacked mail) results in a weighted average modeled cost of 7.302 cents. If not confirmed, please provide the corrected figure.
- (d) Please confirm that setting all of the initial bundle breakage factors in USPS-LR-L-43 to 1.1% (the initial bundle breakage factor for palletized mail) results in a weighted average modeled cost of 6.214 cents. If not confirmed, please provide the correct figure.

**RESPONSE:**

(a) The residual distribution issue does not affect the productivity values for bundle processing. This issue has been incorporated into the USPS-LR-L-43 cost models given that bundle breakage rates have been applied. Once a bundle breaks, the mail pieces are routed to piece distribution operations.

To the extent that mailhandlers' attempts to capture and repair bundles affect the productivity in a given operation, they should be imbedded within the average productivity values. I am not aware of any analysis that has been conducted to

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determine what the productivities might have been had it not been necessary for mailhandlers to attempt to capture and repair bundles.

(b) In the USPS-LR-L-43 cost models, the initial bundle breakage rates for pallets and sacks are 1.10 percent and 17.50 percent, respectively. It can therefore be confirmed that the initial breakage rate for sacked mail is 15.9 times as large ( $17.5 / 1.10$ ) as the initial breakage rate for palletized mail.

(c) I can confirm that when all initial breakage rates are set to 17.5 percent, regardless of whether the mail is entered in pallets or sacks, the total weighted model cost becomes 7.302 cents.

(d) I can confirm that when all initial breakage rates are set to 1.1 percent, regardless of whether the mail is entered in pallets or sacks, the total weighted model cost becomes 6.214 cents.



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**MPA/USPS-T20-3.** Please refer to your response to MPA/USPS-T20-1(f), where you state, “[t]he manner in which incoming secondary operations are performed is not a determinant for Periodicals Outside County rates.”

(a) Do you agree that the unit cost of incoming secondary operations affects the modeled cost difference between Periodicals Outside County Carrier Route and 5-Digit flats? If not, please explain your response fully.

(b) Please explain what you meant by “[t]he manner in which incoming secondary operations are performed is not a determinant for Periodicals Outside County rates.” In particular, did you mean that “[t]he manner in which incoming secondary operations are performed” has no effect on Periodicals Outside County presorting cost differences by rate category or did you mean something else? If the latter, please explain.

**RESPONSE:**

(a) Yes. This circumstance is reflected in the Periodicals cost model in USPS-LR-L-43.

In the nonautomation carrier route presort cost model, only 954 of the 10,000 total mail pieces (see USPS-LR-L-43, page 49) are processed through an incoming secondary operation as the vast majority of the mail is routed directly to the carriers. In the nonautomation 5-digit presort cost model (see USPS-LR-L-43, page 47), all 10,000 mail pieces are processed through incoming secondary operations.

(b) I meant that, as they pertain to my testimony, the Periodicals Outside County rate schedule includes rates that differ based on whether mail pieces are prebarcoded and/or presorted and does not include rates based on whether mail pieces are processed through AFSM100, UFSM1000, or manual incoming secondary operations.

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**MPA/USPS-T20-4.** Please refer to USPS-LR-L-43, PER OC FLATS.xls and Table 1 below.

**Table 1. Incoming Secondary Sortation Statistics  
(USPS-LR-L-43, PER OC FLATS.xls)**

Rate Category	% of Volume	# of Incoming Secondary Sorts/Piece			% Manual
		AFSM 100	UFSM 1000	Manual	
Basic Nonauto	2.05%	0.51	0.20	0.30	29.5%
3-Digit Nonauto	2.10%	0.43	0.27	0.31	31.1%
5-Digit Nonauto	2.72%	0.51	0.33	0.18	17.9%
CR Nonauto	48.03%	0.07	0.02	0.02	15.8%
Basic Auto	1.84%	0.51	0.18	0.32	31.5%
3-Digit Auto	12.65%	0.53	0.20	0.29	28.5%
5-Digit Auto	30.61%	0.68	0.18	0.16	15.5%
<b>Wtd Average</b>	<b>100.00%</b>	<b>0.35</b>	<b>0.11</b>	<b>0.12</b>	<b>20.2%</b>

(a) Please confirm that Table 1 accurately summarizes the number of incoming secondary sorts per piece (and the percent of incoming secondary sorts that are manual) by presort level and prebarcoding from USPS-LR-L-43, PER OC FLATS.xls. If not confirmed, please provide the correct figures.

(b) Please confirm that Table 1 accurately summarizes the average (weighted by volume) number of incoming secondary sorts received by Periodicals Outside County flats (and the percent of incoming secondary sorts that are manual) from USPS-LR-L-43, PER OC FLATS.xls. If not confirmed, please provide the correct figures.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

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**MPA/USPS-T20-5.** This question refers to (1) your response to MPA/USPS-T20-1(e), where you state regarding the Incoming Secondary Machinable Flats coverage factors, "we did not have sufficient data to support their usage," and (2) USPS-LR-L-43, page 63. Please explain the data that you believe would be necessary to "support their usage."

**RESPONSE:**

In my opinion, it would first be necessary to determine the percentage of mail processed through the various incoming secondary operations by class. Even if that data were available, it would typically be expressed in terms of the percentage of pieces finalized in the various incoming secondary operations. Incorporating finalization figures into the cost models is not a simple task as other data inputs included in the cost models (e.g. coverage factors, the percentage of AFSM100 compatible mail, acceptance rates) already affect how much mail for each rate category is processed in the various incoming secondary operations. Furthermore, the inclusion of incoming secondary factors has become a more difficult task over time as the UFSM1000 strategy has evolved (please see Docket No. R2005-1, USPS-T-19, Section III.B.4).

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**MPA/USPS-T20-6.** This question refers to:

- (1) your response to MPA/USPS-T20-1(e), where you state regarding the Incoming Secondary Machinable Flats coverage factors, "such factors were affected by issues unrelated to mailer prebarcoding and presorting efforts (e.g., whether or not a given ZIP Code was processed on automation/mechanization)";
- (2) USPS-LR-L-43, page 62;
- (3) lines 21-23 on page 8 of your testimony (USPS-T-20), where you state, "The coverage factors were calculated by dividing the originating/destinating volumes for 'covered' facilities by the total originating/destinating volumes for all facilities"; and
- (4) footnote 5 on page 8 of USPS-T-20, which states "The 'covered' facilities were those facilities that will have the specific equipment or technology by the midpoint of the test year (March 31, 2008)."

(a) Please confirm that the coverage factors shown on USPS-LR-L-43, page 62, were developed based upon whether or not a facility has a specific equipment or technology. If not confirmed, please explain fully.

(b) Please confirm that whether or not a facility has a specific equipment or technology is unrelated to mailer prebarcoding and presorting efforts. If not confirmed, please explain fully.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

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**MPA/USPS-T20-7.** Please refer to your response to MPA/USPS-T20-1(e) where you state regarding the Incoming Secondary Machinable Flats coverage factors, "they could not accurately be applied."

(a) Were they "accurately applied" in Docket No. R2001-1? If not, please explain your response fully.

(b) Please explain why "they could not accurately be applied" in this case.

**RESPONSE:**

(a) No. In retrospect, I do not believe that they should have been included in the cost models in Docket No. R2001-1, which is why I have since removed them.

(b) I do not believe they could be accurately applied in this case because we do not have data by class. In addition, please see my response to MPA/USPS-T20-5.

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**MPA/USPS-T20-8.** Please refer to your response to MPA/USPS-T20-2(a), where you state: "To the extent that mailhandlers' attempts to capture and repair bundles affect the productivity in a given operation, they should be imbedded within the average productivity values."

(a) Please confirm that your model does not assign the costs of "mailhandlers' attempts to capture and repair bundles" exclusively to broken bundles. If not confirmed, please explain fully.

(b) Please confirm that your model does not assign allied costs (such as gathering broken bundles and moving them to piece sorting operations) exclusively to broken bundles. If not confirmed, please explain fully.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS MILLER TO INTERROGATORY OF  
THE PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS- T20-1.** Please refer to your response to PSA/USPS- T32-16 where you state, "I therefore view the mail processing unit cost estimates for parcels to be conservative, as it is my understanding that First-Class Mail presort parcels are more likely to be processed manually than are flats bundles. I also rely on flats CRA adjustment factors as proxies in my analysis. I do not attempt to compare the First-Class Mail presort parcels model cost estimates to the First-Class Mail presort parcels mail processing unit cost estimate by shape developed by witness Smith (USPS-T-13) because we do not have detailed mail characteristics data, including volumes by presort level, for First-Class Mail presort parcels. The usage of flats CRA adjustment factor proxies is also likely to result in conservative estimates." Do you also believe that the estimates of the mail processing unit cost differences by presort level for parcels are also conservative? If not, please explain fully.

**RESPONSE:**

I do not know the answer to this question. In my response to PSA/USPS-T32-16, my comments referred to the various assumptions used to develop the mail processing unit cost estimates, and were not made in reference to cost differences. While it is reasonable for witness Taufique to compare the cost estimates for parcels at one presort level with the estimates at another presort level since they are all derived from the same model, I do not have any basis to know whether the differences between those estimates can be characterized as "conservative." This is because I don't have the data to make such a determination. In more comprehensive studies, the cost differences between rate categories are normally affected by elements such as mail characteristics data (e.g., how the mail is prepared) and the specific CRA adjustment factor values. As I stated in my response to PSA/USPS-T31-16, my analysis is more limited in scope and does not include such data.

RESPONSE OF POSTAL SERVICE WITNESS MILLER (USPS-T-20)  
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION,  
REDIRECTED FROM WITNESS TAUFIQUE

**PSA/USPS-T32-16.** Please refer to the table entitled "FCM – Business Parcels" on page 37 of your testimony. This table provides the mail processing cost avoided by ADC, 3-Digit, and 5-Digit parcels relative to the next higher presort level. Please provide your best estimate of the mail processing cost avoided by ADC, 3-Digit, and 5-Digit parcels relative to First-Class Mail single-piece parcels and relative to First-Class Mail Nonautomation parcels and provide all of your underlying calculations. Please include in your estimates the cost savings from meeting the automation requirements for First-Class Mail Business Parcels.

**RESPONSE:**

The First-Class Mail presort parcels cost savings estimates in witness Taufique's testimony rely on mail processing unit cost estimates I have developed in USPS-LR-L-43, pages 4 to 8. These estimates have been developed using data in the flats cost models I sponsor in testimony USPS-T-20. It is assumed that the parcels would be processed in Automated Parcel Processing System (APPS), Small Parcel and Bundle Sorter (SPBS), Linear Integrated Parcel Sorter (LIPS), or manual bundle sorting operations. The flats coverage factors have been relied upon to perform this analysis, even though they were designed to reflect the methods in which flats bundles are processed. I therefore view the mail processing unit cost estimates for parcels to be conservative, as it is my understanding that First-Class Mail presort parcels are more likely to be processed manually than are flats bundles. I also rely on flats CRA adjustment factors as proxies in my analysis. I do not attempt to compare the First-Class Mail presort parcels model cost estimates to the First-Class Mail presort parcels mail processing unit cost estimate by shape developed by witness Smith (USPS-T-13) because we do not have detailed mail characteristics data, including volumes by presort level, for First-Class Mail presort parcels. The usage of flats CRA adjustment factor proxies is also likely to result in conservative estimates.



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REDIRECTED FROM WITNESS TAUFIQUE

Witness Taufique's use of the data is not problematic because he simply compares cost estimates for parcels at one presort level to cost estimates for parcels at another presort level, and these estimates were all developed using the methods described above.

The development of cost comparisons related to a different cost by shape estimate, in this case First-Class Mail single-piece parcels, however, is problematic because the cost estimates I develop rely on conservative inputs and do not reflect actual data related to First-Class Mail presort parcels. As stated above, these data do not exist. My analysis has been developed to simply show that First-Class presort parcels incur greater mail processing costs than do First-Class Mail flats. This analysis is also not structured to measure any costs savings that might be incurred when mailers apply postal barcodes to First-Class Mail presort parcels.

It is therefore my opinion that the requested cost comparisons would not make sense. If an analyst desired to conduct such an analysis, however, they could compare my unit cost estimates from USPS-LR-L-43 with witness Smith's unit cost by shape estimates from USPS-LR-L-53.

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T20-1.** For this and the following interrogatories, please refer to the spreadsheet 'PER OC FLATS.xls' in LR-L-43, which you sponsor.

- a. Please refer to the 'Productivities' page in the spreadsheet. Confirm that for outgoing bundle sorting you use a MODS productivity rate equal to 443 units (bundles) per hour for processing on an APPS machine and 341 units (bundles) per hour for the older SPBS/LIPS machines. Please confirm also that the APPS rate is higher than the SPBS/LIPS rate by a factor of 1.2997.
- b. Please refer to the 'Piggybacks' page in the spreadsheet. Confirm that it shows an APPS piggyback factor equal to 2.199 and an SPBS/LIPS factor equal to 1.589. Please confirm also that the ratio between the APPS and the SPBS/LIPS piggyback factors is equal to 1.3843.
- c. It seems a natural conclusion that when the ratio between the piggyback factors exceeds the ratio between the productivity rates, then it must be less costly to perform outgoing bundle sorting on the older SPBS/LIPS machines than on the newer APPS machines. Please state whether you agree with this conclusion and explain your answer. If you do not agree, please describe any advantages of the newer machines that are not revealed by simply comparing productivity rates and piggyback factors.

**RESPONSE:**

(a) I can confirm that the marginal productivities relied upon in the USPS-LR-L-43 cost models are based on the FY 2005 MODS productivities of 443 pieces per hour and 341 pieces per hour for the APPS and SPBS/LIPS operations, respectively. I can also confirm that dividing the APPS figure by the SPBS/LIPS figure equals 1.2997.

(b) Confirmed. It should be noted, however, that these piggyback factors have been revised by witness Smith based on his responses to POIR No. 4, Questions 16 and 17. Also, please see my response to TW/USPS-T20-2(b).

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
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(c) I cannot agree nor disagree with this statement because I have never conducted such an analysis based on piggyback factors and productivity ratios. I can say, however, that I do not believe these comparisons are valid because the machines differ in some ways which affect costs that are not accounted for simply by examining these productivities and piggybacks. For example, the APPS machine comes in three bin-size configurations: 100 bins, 150 bins, and 200 bins. In contrast, all SPBS machines only contain 100 to 132 bins. It is also my understanding that the LIPS are locally developed programs that also do not have the bin capacity of the APPS. Consequently, the APPS machine can finalize mail to the 5-digit level in one pass that might take more than one pass on the SPBS or LIPS machines. The cost comparisons implied in this interrogatory are therefore, in my opinion, not valid.

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**TW/USPS-T20-2.**

- a. Please confirm that an APPS machine uses remote encoding (REC) for items (e.g., parcels, bundles) whose address the machine cannot read. If not confirmed, then what happens to such items?
- b. Does your flats mail flow model for Periodicals account for the use of remote encoding by APPS machines? If No, why not? If Yes, please explain how it is accounted for, with reference to the cost and model pages for a given presort/auto category. For example, refer to spreadsheet pages '3D AUTO Cost' and '3D AUTO MODEL' to illustrate how you model APPS remote encoding.
- c. Please confirm that the piggyback factor you use for APPS (2.199) does not include REC costs. If the corresponding APPS piggyback factor with REC costs included can be determined, then please provide it.
- d. Please confirm that the corresponding model you presented in Docket No. R2005-1 used an APPS piggyback factor equal to 2.814.
- e. Please confirm that the piggyback factor you used for the APPS in Docket 2005-1 did include the cost of remote encoding. If not confirmed, then why was it so much higher than the factor you use in the current docket? If confirmed, why did you change it in your current model?

**RESPONSE:**

(a) Confirmed. Please note that barcodes and Optional Endorsement Lines (OEL) are also considered part of the address block.

(b) The REC costs associated with APPS processing should have been included in the piggyback factor. I incorrectly used the APPS piggyback factor from USPS-LR-L-52 that did not include REC costs, and will file revised cost models using the correct APPS piggyback factors. Also, please note that, as a result of his response to POIR No. 4, question 17, witness Smith has revised the APPS

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piggyback factors. Thus, my revised cost models will use witness Smith's revised APPS piggyback factor that includes REC costs, which is 2.421.

(c) Confirmed. Please see my response to part (b) of this interrogatory above. The APPS piggyback factor with REC costs included can be found in USPS-LR-L-52.

(d) Confirmed.

(e) Confirmed. Please see my response to part (b) of this interrogatory above.

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**TW/USPS-T20-3**

- a. Please refer to spreadsheet 'ACCEPT RATES' and confirm that your flat mail flow model assumes the same acceptance rates (98.7% outgoing and 98.22% incoming) for APPS, SPBS and LIPS machines.
- b. Please confirm that the productivity rates you obtain from LR-L-56 are measures of pieces fed (TPF) per workhour.
- c. Please refer to spreadsheet 'YRscrub2005.xls' in LR-L-56 and confirm that the ratio of total pieces handled (TPH) to total pieces fed (TPF) is much smaller for APPS (82.7% outgoing and 81.2% incoming) than for SPBS/LIPS machines, whose accept rates vary between 98.5% and 100%.
- d. Given the relatively low acceptance rates on APPS machines, according to LR-L-56, please provide all available information on what happens to the approximately 18% of items that the APPS machines at least initially reject. In particular, what percentage of these items are:
  - (1) resolved through remote encoding;
  - (2) fed back at least once onto the APPS belt;
  - (3) keyed by employees working at the APPS;
  - (4) redirected to a manual sorting operation; or
  - (5) any other (please explain)?

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) I can confirm that the ratios of TPH to TPF are as described in the interrogatory. The data contained in USPS-LR-L-56 are derived from MODS. The MODS system is not typically relied on to determine acceptance rates. I have therefore not relied on MODS data for acceptance rates in this case or the past few cases.

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(d) The APPS program is relatively new. To the best of my knowledge, these data are not currently available.

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**TW/USPS-T20-4** The following questions concern the assumptions about bundle breakage and the cost consequences of bundle breakage used in the flats mail flow models in library references LR-L-43 and LR-L-102, both of which you sponsor.

- a. Please confirm that at each bundle sorting operation your models assume that a certain percentage of bundles break, depending only on whether it is the first or a subsequent sorting operation for a given bundle, and on whether the bundle came from a sack or a pallet. If not confirmed, please explain.
- b. Please confirm that when a bundle breaks your models assume that the pieces that were in that bundle will be routed to a piece sorting operation that corresponds to the presort level of the bundle sorting operation, e.g., if it is an ADC bundle sort you assume that the pieces will be routed to an ADC piece sorting operation. If not confirmed, please explain.
- c. Please confirm that your flats mail flow models do not include the possibility that some broken bundles are recovered by re-banding them and putting them back on the belt of the bundle sorting operation. If not confirmed, please explain how your models include the recovery of broken bundles.
- d. Please confirm that, apart from inclusion through the CRA adjustment, your models do not include the costs associated with recovering a broken bundle and re-banding it. If not confirmed, please explain how you do model those costs.

**RESPONSE:**

Please note that while I sponsor USPS-LR-L-43, I do not sponsor USPS-LR-L-102. The two models are identical, however, with respect to the bundle breakage issues queried about in this interrogatory.

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.



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**TW/USPS-T20-5**

a. Please assume:

- (1) that when a bundle is broken but recoverable the costs to the Postal Service of recovering the bundle are lower than the costs of prepping and then sorting the pieces in the bundle individually;
- (2) that the Postal Service's current operating procedures emphasize bundle recovery; and
- (3) that postal employees in fact do recover many broken bundles.

Given that your flats mail flow models assume no bundle recovery and assume instead that pieces from broken bundles always are sorted individually, starting with the presort level of the bundle sorting operation, would it not then follow that your models in fact are exaggerating the costs associated with bundle breakage?

b. Do you disagree with any of the three assumptions stated in part a above? If so, please state the reasons for your disagreement and identify any documentary or empirical evidence of which you are aware that supports your view.

**RESPONSE:**

(a) If these assumptions were, in fact, true, then it is possible that the costs associated with bundle breakage could be overstated. Any cost estimates within the models could be overstated, understated, or accurately stated, which is one reason why Cost and Revenue Analysis (CRA) adjustment factors have historically been applied to the model cost estimates.

(b) I can neither agree nor disagree with the first assumption, as I have not performed any cost comparison for these activities. I would note that such an analysis could lead to different results for different bundles, given that bundles differ in size, method of preparation, etc. I would agree with the second assumption. For the third assumption, I can agree that some bundles are

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recovered, but cannot state whether "many" bundles are recovered, as that is a relative term. I am also not aware of any field study in which an attempt was made to quantify the percentage of broken bundles that are recovered.

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**TW/USPS-T20-6** Please assume that a carrier route flats bundle and a 3-digit flats bundle, both with 20 pieces, are entered on an ADC pallet which is dumped at an ADC mechanized or automated bundle sorting operation. Assume further that both bundles break, but remain recoverable. A postal employee observing the bundles can then either recover and repair them or simply prep the pieces in both bundles for an ADC piece sort.

- a. Please confirm that if both bundles are recovered and re-banded, as emphasized by current operating procedures, the extra costs caused by the breakage will have been the same for both bundles. Please explain if not confirmed.
- b. Please confirm that if instead the pieces from both bundles are taken to an ADC piece sorting operation, as assumed in your flat mail flow models, then the cost consequences of the breakage for the carrier route bundle are much higher than the corresponding cost consequences for the 3-digit bundle. Please explain if not confirmed

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

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**TW/USPS-T20-7**

- a. Please confirm that your models assume that in each bundle sorting operation after the first sort for a given bundle, ten percent of the remaining bundles break.
- b. Please confirm that the Postal Service has no empirically based data on the frequency of bundle breakage in subsequent bundle sorting operations where bundles are taken, not from mailer prepared sacks or pallets, but from postal containers such as hampers and APC's into which they were placed in a preceding bundle sorting operation. If not confirmed, then please describe all empirical data that the Postal Service has on this subject and provide copies of all available documentation.
- c. Please confirm that in your models the assumed bundle breakage frequency does not depend on the type of bundle sort performed, e.g., whether it is an operation where all bundles are dumped on a belt, or an operation where one bundle at a time is lifted rather than dumped and then placed in its proper receptacle.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed. The only data available are from the qualitative flats bundle study contained in Docket No. R2000-1, USPS-LR-I-88.

(c) Confirmed.

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**TW/USPS-T20-8** Please confirm that in your LR-L-43 mail flow models a non-carrier route flat will undergo a manual incoming secondary sort if and only if at least one of the following four conditions holds:

- (1) the flat's 3-digit destination ZIP code is served by a postal facility that uses neither AFSM-100 nor UFSM-1000 machines;
- (2) the flat is non-AFSM-100 machinable and its 3-digit destination ZIP code is served by a postal facility that does not use UFSM-1000 machines;
- (3) the flat was sorted manually in an upstream sorting operation; or
- (4) the flat is rejected from an attempt to sort it at an AFSM-100 or UFSM-1000 machine.

Please explain if not confirmed. If there are other conditions than those listed under which the LR-L-43 models will flow flats to manual incoming secondary sorting, please describe those conditions with specific references to the spreadsheets in LR-L-43.

**RESPONSE:**

Confirmed.

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TO INTERROGATORY OF TIME WARNER INC.**

**TW/USPS-T20-10** The attached tables A and B show, for Outside County Periodicals flats and Standard non-ECR flats respectively, the volumes of non-carrier route flats that undergo manual incoming secondary sorting according to the LR-L-43 mail flow models for those two subclasses. Each table gives the volume of flats in each rate category and the percent of flats in each category that is shown as receiving manual incoming secondary sorting in the LR-L-43 model spreadsheets.

For outside county Periodicals, the volume modeled with manual incoming secondary (not including volumes from broken carrier route bundles) is 891 million pieces. The corresponding number for Standard non-ECR flats is 2,130 million.

Please confirm that the numbers in Tables A and B are correctly derived from the mail flow models in LR-L-43. If not confirmed, please explain and provide corrected numbers.

Table A: Outside County Flats to Manual Incoming Secondary According to LR-L-43		
Rate Category:	Non-Carrier Route Flats:	Flats to Manual Incoming Secondary:
Nonauto Basic Presort Flats	168,214,698	29.86%
Nonauto 3-Digit Presort Flats	172,270,322	31.42%
Nonauto 5-Digit Presort Flats	223,586,748	18.13%
Auto Basic Presort Flats	151,367,760	31.80%
Auto 3-Digit Presort Flats	1,038,021,663	28.84%
Auto 5-Digit Presort Flats	2,511,885,335	15.87%
All Non CR Flats	4,265,346,527	20.89%
Flats to Manual Incoming Secondary:		890,998,589

Table B: Standard Regular Flats to Manual Incoming Secondary According to LR-L-43		
Rate Category:	Non-Carrier Route Flats:	Flats to Manual Incoming Secondary:
Nonauto MADC Presort Flats	215,020,175	25.62%
Nonauto ADC Presort Flats	141,457,414	23.15%
Nonauto 3 Digit Presort Flats	421,057,344	21.66%
Nonauto 5 Digit Presort Flats	358,931,019	13.41%
Auto MADC Presort Flats	85,590,082	28.87%
Auto ADC Presort Flats	334,618,618	23.75%
Auto 3 Digit Presort Flats	4,470,785,082	21.10%
Auto 5 Digit Presort Flats	7,998,429,444	10.70%
Total Flats	14,025,889,177	15.19%
Flats to Manual Incoming Secondary:		2,130,201,305

**RESPONSE:**

Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS MILLER  
TO INTERROGATORY OF TIME WARNER INC.**

**TW/USPS-T20-11** Please refer to witness McCrery's response to MPA/USPS-T42-1a, in which he states:

In FY 2005, 44.7% of incoming secondary flats were finalized in manual operations in the field. The percentage is derived from flat volume of 13,188,243,000 pieces that received manual incoming secondary distribution in the field out of 29,501,658,000 total incoming secondary flat volumes.

Please refer also to the preceding interrogatory, in which the percentages receiving manual incoming flats secondary distribution according to your mail flow models are shown to be 20.89% for Outside County Periodicals non-carrier route flats and only 15.19% for non-ECR Standard flats.

- a. Do you think it is likely that the LR-L-43 mail flow model for Outside County Periodicals flats understates the true volume of such flats that receives manual incoming secondary sorting? Please explain your answer.
- b. If your answer to part a above is affirmative, please discuss the types of modifications you believe would make your Outside County model simulate more accurately the true flow of Periodicals flats through the postal system.
- c. Please provide your or the Postal Service's best estimates of the true number of Outside County Periodicals flats receiving manual incoming secondary sort in: (1) the base year; and (2) the test year.
- d. Do you think it is likely that the LR-L-43 mail flow model for Standard Non-ECR flats understates the true volume of such flats that receives manual incoming secondary sorting? Please explain your answer.
- e. If your answer to part d above is affirmative, please discuss the types of modifications you believe would make your Standard flats model simulate more accurately the true flow of such flats through the postal system.
- f. Please provide your or the Postal Service's best estimates of the number of Standard Non-ECR flats receiving manual incoming secondary sort in: (1) the base year; and (2) the test year.

**RESPONSE:**

(a) It is possible that the cost model understates the volume of flats processed in manual incoming secondary operations, but there is currently no way to make such a determination given that the data used as a basis for the response to MPA/USPS-T42-1(a) are not available by class and rate category.

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(b) Based on my response to (a), I would not make any changes to any of the class-specific cost models found in USPS-LR-L-43.

(c) To the best of my knowledge, these data are not available.

(d) Please see my response to part (a) above.

(e) Please see my response to part (b) above.

(f) Please see my response to part (c) above.



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**TW/USPS-T20-12** Please refer to sheet 'CRA FLATS' in your Outside County flats mail flow model, the latest version of which appears in LR-L-153. On that sheet you have designated certain cost pools as "Proportional MP Unit Costs" for the purpose of developing a CRA adjustment factor.

- a. Please confirm that your model includes various automated, mechanized and manual bundle sorting operations. Please explain if not confirmed.
- b. Please confirm that the productivity rates you use for the modeled bundle sorting operations include various auxiliary functions such as opening and dumping sacks, dumping pallets, removing full containers into which bundles have been sorted and replacing them with empty containers, etc. Please explain if not confirmed.
- c. Please confirm that some of the bundle sorting operations that you model, such as distributing bundles from 5-digit containers, often are performed at NonMODS offices and at stations and branches. Please explain if not confirmed.
- d. Please confirm that among the mail processing cost pools into which costs at NonMODS offices, stations and branches are divided, bundle sorting and the related functions referred to in part b above are included in the "Allied" cost pool. Please explain if not confirmed.
- e. Please explain why you have designated all "Allied" costs at NonMODS offices, stations and branches as "Fixed MP Unit Costs" when in fact a portion of those costs is represented in your mail flow model.

**RESPONSE:**

Please note that USPS-LR-L-153 is not "the latest version" of my Periodicals Outside County flats mail flow cost model, as this interrogatory states. USPS-LR-L-153 is a Category 5 library reference that was provided solely in order to respond to MPA/USPS-3. I do not sponsor it. The Periodicals Outside County mail flow model that I sponsor is contained in USPS-LR-L-43.

(a) Confirmed.

(b) Confirmed.

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(c) Confirmed.

(d) Partially confirmed. It is my understanding that some bundle sorting costs are also contained in the non MODS "MANF" cost pool, which has been classified as a proportional cost pool. Please also see the response to TW/USPS-T20-13, redirected to witness Van-Ty-Smith.

(e) The non MODS "ALLIED" cost pool corresponds to the MODS "1PLATFORM" cost pool, which is also classified as fixed. These cost pools generally represent non-modeled tasks related to container loading, unloading, and movement within a facility. I therefore used the fixed cost pool classification for both cost pools.

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VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS'  
ASSOCIATION, INC.

**VP/USPS-T20-1** Please refer to the mail processing costs for non-automation mixed ADC flats provided in cell G36 of tab 'CRA ADJ UNIT COSTS' of each of STD REG FLATS 6-28-06.xls (in USPS-LR-L-43, revised 6-28-06) and STD REG FLATS - PRC 06-28-06.xls (in USPS-LR-L-102, revised 6-28-06). The cost shown in the first reference is 23.516 and in the second is 26.028.

(a) Please explain how you would describe these costs in terms of being for non-machinable flats, for machinable flats, or for a weighted average of flats as they currently exist in the mail stream.

(b) Please explain whether these costs are applicable to the category of non-automation flats being proposed in this case, which, as explained by witness Kiefer (USPS-T-36), will have have "tightened" eligibility requirements. See USPS-T-36, p. 15, 1. 25.

(c) If you believe the subject costs are not applicable to the category being proposed, please provide costs (in the format of the two referenced library references) that you believe to be applicable.

**RESPONSE:**

(a) These figures represent an average mail processing unit cost estimate for the Standard Mail Regular nonautomation Mixed Area Distribution Center (MADC) presort flats rate category, which consists of both machinable (i.e., AFSM100 compatible) and nonmachinable mail pieces.

(b) It is my understanding that the mail characteristics data upon which the cost estimates are based (USPS-LR-L-92) reflect the current flats requirements, not the proposed requirements discussed by witness Kiefer.

(c) The extent to which the cost estimates may be applicable to the revised flats definition is unknown. There are no more representative cost estimates which can be used at this time, as it is my understanding that it is not possible to reconstruct the cost

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VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS'  
ASSOCIATION, INC.

by shape estimate and mail characteristics data in a manner that would reflect the proposed requirements. Consequently, it is not possible to revise the USPS-LR-L-43 cost study as suggested in this interrogatory.

1 CHAIRMAN OMAS: This brings us to oral  
2 cross-examination. Three participants requested oral  
3 cross examination. However, it is my understanding  
4 that the American Postal Workers Union AFL-CIO no  
5 longer intends to cross-examine this witness.

6 The remaining participants requesting cross-  
7 examination are the Magazine Publishers of America and  
8 Time-Warner, Inc.

9 Is there any other participant you would  
10 like to cross-examine this witness?

11 (No response.)

12 CHAIRMAN OMAS: There being none, Mr. Levy,  
13 would you please begin?

14 (No response.)

15 CHAIRMAN OMAS: Mr. Levy is not here to  
16 begin. Therefore, we'll go to the next.

17 Mr. Keegan from Time, Inc.?

18 (No response.)

19 CHAIRMAN OMAS: Mr. Keegan is not here.  
20 They're either late, or they've decided, Mr. Miller,  
21 they don't need to cross-examine. Whatever, I guess  
22 you should be pleased.

23 Therefore, Mr. Weidner, I don't guess you  
24 need any time with your witness.

25 MR. WEIDNER: No, Mr. Chairman. Thank you.

1                   CHAIRMAN OMAS: Okay. Mr. Miller, that  
2 completes your first piece of testimony here today.  
3 We appreciate your appearance and your contribution to  
4 our record, and we look forward to seeing you in a few  
5 minutes.

6                   THE WITNESS: Thank you.

7                   (Witness excused.)

8                   CHAIRMAN OMAS: I guess we'll hold that  
9 option. If the attorneys for Time-Warner show up  
10 later they may want to cross-examine. I guess we  
11 should give them the opportunity.

12                   Ms. Portonova?

13                   MR. KOETTING: Mr. Chairman, unfortunately  
14 my colleague, Ms. Portonova, has had a family  
15 situation she had to deal with and so she will not be  
16 here to represent Mr. Hintenach.

17                   CHAIRMAN OMAS: Boy, this is great. The  
18 heat has gotten to everyone.

19                   MR. KOETTING: Right. We have Mr. Hintenach  
20 here, and we have him available for cross-examination.  
21 My understanding is that the two copies of his direct  
22 testimony are enroute at the moment, so I don't know  
23 the best way to proceed.

24                   We were anticipating there would be some  
25 cross-examination I believe of Mr. Miller from the two

1 parties that haven't shown up yet either, so at this  
2 point I'm not sure exactly what's the best way to  
3 proceed.

4 CHAIRMAN OMAS: I guess I'm a little  
5 confused as well. We don't want to recess. Let's  
6 see. Why don't we put this on hold and go back to Mr.  
7 Miller.

8 MR. KOETTING: Mr. Chairman, perhaps we  
9 could proceed with Mr. Miller's other testimony.

10 CHAIRMAN OMAS: That's what I was thinking:  
11 I'm looking for advice from my counsel.

12 Why don't we do that, Mr. Miller. Mr.  
13 Miller, you are sworn.

14 I guess we need to go through. Counsel,  
15 would you like to reintroduce your witness?

16 MR. WEIDNER: Mr. Chairman, can we request a  
17 five minute recess, because neither I nor Mr. Miller  
18 have looked at his T-21 cross-examination.

19 In looking through it quickly, I see that  
20 the packet contains a response that was subsequently  
21 revised and is no longer in there. We need to replace  
22 that copy with a new copy.

23 CHAIRMAN OMAS: Without objection. Okay.  
24 We'll recess for about five minutes to get everybody  
25 to pull themselves together.

1 (Whereupon, a short recess was taken.)

2 CHAIRMAN OMAS: Thank you. Our next witness  
3 is Michael Miller. He is already under oath and has  
4 been sworn into this proceeding.

5 Mr. Weidner, are you ready to begin?

6 MR. WEIDNER: Yes, Mr. Chairman.

7 Whereupon,

8 MICHAEL W. MILLER

9 having been previously duly sworn, was  
10 recalled as a witness herein and was examined and  
11 testified further as follows:

12 (The document referred to was  
13 marked for identification as  
14 Exhibit No. USPS-T-21.)

15 DIRECT EXAMINATION

16 BY MR. WEIDNER:

17 Q Mr. Miller, before you are two copies of the  
18 Direct Testimony of Michael W. Miller on Behalf of the  
19 United States Postal Service designated USPS-T-21 as  
20 revised August 3, 2006.

21 Was that prepared by you or under your  
22 direction?

23 A Yes.

24 Q If you were to give that testimony today,  
25 would it be the same?



1           A     Yes.

2           Q     Are there any Category II library references  
3 associated with your testimony?

4           A     Yes.

5           Q     Are those USPS-LR-46 as revised August 2,  
6 2006, and USPS-LR-47?

7           A     Yes.

8           MR. WEIDNER: Mr. Chairman, I am handing two  
9 copies of the direct testimony of Witness Miller,  
10 USPS-T-21, to the reporter and ask that it and its  
11 associated library references be entered into  
12 evidence.

13          MR. MCKEEVER: Mr. Chairman, I assume that  
14 the testimony being offered into evidence is the  
15 revised testimony? Maybe Mr. Weidner said that and I  
16 missed it.

17          MR. WEIDNER: Yes. It's the testimony as  
18 revised yesterday.

19          MR. MCKEEVER: Okay. Thank you.

20          CHAIRMAN OMAS: Is there any objection?

21          (No response.)

22          CHAIRMAN OMAS: Hearing none, I will direct  
23 counsel to provide the reporter with two copies of the  
24 corrected direct testimony of Michael W. Miller.

25          That testimony is received into evidence.

1       However, as is our practice, it will not be  
2       transcribed.

3                               (The document referred to,  
4                               previously identified as  
5                               Exhibit No. USPS-T-21, was  
6                               received in evidence.)

7               CHAIRMAN OMAS:  Mr. Miller, have you had the  
8       opportunity to examine the packet of designated  
9       written cross-examination that was made available to  
10      you in the hearing room this morning?

11              THE WITNESS:  Yes, I have.

12              CHAIRMAN OMAS:  If the questions contained  
13      in that packet were posed to you orally today, would  
14      your answers be the same as those previously provided  
15      in writing?

16              THE WITNESS:  Yes, they would.

17              CHAIRMAN OMAS:  Are there any corrections or  
18      additions you would like to make to those answers?

19              THE WITNESS:  No.

20              CHAIRMAN OMAS:  Counsel, would you please  
21      provide two copies of the corrected designated written  
22      cross-examination of Witness Miller to the reporter?

23              That material is received into evidence and  
24      is to be transcribed into the record.

25      //

1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. USPS-T-21 and was  
4 received in evidence.)  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL W. MILLER  
(USPS-T-21)

Party

Interrogatories

Amazon.com, Inc.

AMZ/USPS-T42-7 redirected to T21

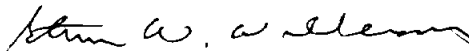
Postal Rate Commission

AMZ/USPS-T42-7 redirected to T21  
UPS/USPS-T21-1a-b, 2-7, 9-10, 12a-c, 13-18

United Parcel Service

AMZ/USPS-T42-7 redirected to T21  
UPS/USPS-T21-1a-b, 2-11, 12a-c, 13-18

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS MICHAEL W. MILLER (T-21)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

InterrogatoryDesignating Parties

AMZ/USPS-T42-7 redirected to T21	Amazon, PRC, UPS
UPS/USPS-T21-1a	PRC, UPS
UPS/USPS-T21-1b	PRC, UPS
UPS/USPS-T21-2	PRC, UPS
UPS/USPS-T21-3	PRC, UPS
UPS/USPS-T21-4	PRC, UPS
UPS/USPS-T21-5	PRC, UPS
UPS/USPS-T21-6	PRC, UPS
UPS/USPS-T21-7	PRC, UPS
UPS/USPS-T21-8	UPS
UPS/USPS-T21-9	PRC, UPS
UPS/USPS-T21-10	PRC, UPS
UPS/USPS-T21-11	UPS
UPS/USPS-T21-12a	PRC, UPS
UPS/USPS-T21-12b	PRC, UPS
UPS/USPS-T21-12c	PRC, UPS
UPS/USPS-T21-13	PRC, UPS
UPS/USPS-T21-14	PRC, UPS
UPS/USPS-T21-15	PRC, UPS
UPS/USPS-T21-16	PRC, UPS
UPS/USPS-T21-17	PRC, UPS
UPS/USPS-T21-18	PRC, UPS

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF AMAZON.COM, INC.,  
REDIRECTED FROM WITNESS MCCRERY

**AMZ/USPS-T42-7** Please provide in a format that can be compared both the (i) productivities and (ii) unit cost of sorting small parcels (e.g., BPM and Media Mail parcels) on (a) Parcel Sorting Machines ("PSMs"), (b) SSIUs, (c) Small Parcel and Bundle Sorters ("SPBSs"), and (d) APPSs.

**RESPONSE:**

(a) - (d) Please see pages 1 through 5 of the attachment to this interrogatory response, which is also being filed electronically. The attachment shows productivity data and includes Test Year 2008 cost estimates for First-Class Mail, Standard Mail, Parcel Post, Bound Printed Matter, and Media Mail parcels.

The First-Class Mail estimates have been calculated using MODS plant volume variability factors and include cost estimates for Small Parcel and Bundle Sorter (SPBS) and Automated Package Processing Systems (APPS) operations only. Cost estimates for the Parcel Sorting Machine (PSM) operations are not included, as First-Class Mail is not processed in Bulk Mail Centers (BMCs). The Standard Mail, Parcel Post, Bound Printed Matter, and Media Mail estimates have been calculated using BMC volume variability factors and include cost estimates for PSM, SPBS, and APPS operations. Please note that the Singulation Scan Induction Unit (SSIU) is part of the Secondary Parcel Sorting Machine (SPSM) and would therefore be included in the cost estimates for that operation.

The premium pay factors which are specific to each category of mail have also been used in this analysis. All other inputs (e.g., wage rates, piggyback factors, productivity values) are the same for all five mail categories.

## FIRST-CLASS MAIL PARCELS PRODUCTIVITY VALUES AND TY 2008 MAIL PROCESSING UNIT COST ESTIMATES

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	MODS	Volume	Marginal		Premium	Adjusted	Direct		Total
<u>Operation Description</u>	<u>Productivity</u>	<u>Variability</u>	<u>Productivity</u>	<u>TY 2008</u>	<u>Pay</u>	<u>TY 2008</u>	<u>Dollars</u>	<u>Piggyback</u>	<u>Dollars</u>
	<u>Value</u>	<u>Factor</u>	<u>Value</u>	<u>Wage Rate</u>	<u>Factor</u>	<u>Wage Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Per Piece</u>
Small Parcel and Bundle Sorter (SPBS) Outgoing	343	0.87	394	\$37.992	1.01308	\$38.489	\$0.10	1.677	\$0.16
SPBS Incoming	259	0.87	298	\$37.992	1.01308	\$38.489	\$0.13	1.677	\$0.22
Automated Package Processing System (APPS) Outgoing	443	0.87	509	\$37.992	1.01308	\$38.489	\$0.08	2.421	\$0.18
APPS Incoming	580	0.87	667	\$37.992	1.01308	\$38.489	\$0.06	2.421	\$0.14

(1) USPS-LR-L-56

(2) USPS-T-11, Table 1

(3) (1) / (2)

(4) USPS-LR-L-55

(5) USPS-LR-L-55

(6) (4) \* (5)

(7) (6) \* 100 / (3)

(8) USPS-LR-L-52 (Note: The APPS Piggyback factor includes REC keying costs)

(9) (8) \* (7)

## STANDARD MAIL PARCELS PRODUCTIVITY VALUES AND TY 2008 MAIL PROCESSING UNIT COST ESTIMATES

	(1) MODS Productivity Value	(2) Volume Variability Factor	(3) Marginal Productivity Value	(4) TY 2008 Wage Rate	(5) Premium Pay Factor	(6) Adjusted TY 2008 Wage Rate	(7) Direct Dollars Per Piece	(8) Piggyback Factor	(9) Total Dollars Per Piece
<b>Operation Description</b>									
Primary Parcel Sorting Machine (PPSM)	431	0.85	507	\$37.992	0.97389	\$37.000	\$0.07	1.756	\$0.13
Secondary Parcel Sorting Machine (SPSM, including SSIU)	349	0.85	411	\$37.992	0.97389	\$37.000	\$0.09	2.464	\$0.22
Small Parcel and Bundle Sorter (SPBS) Outgoing	343	0.85	404	\$37.992	0.97389	\$37.000	\$0.09	1.677	\$0.15
SPBS Incoming	259	0.85	305	\$37.992	0.97389	\$37.000	\$0.12	1.677	\$0.20
Automated Package Processing System (APPS) Outgoing	443	0.85	521	\$37.992	0.97389	\$37.000	\$0.07	2.421	\$0.17
APPS Incoming	580	0.85	682	\$37.992	0.97389	\$37.000	\$0.05	2.421	\$0.13

(1) USPS-LR-L-56

(2) USPS-T-11, Table 1

(3) (1) / (2)

(4) USPS-LR-L-55

(5) USPS-LR-L-55

(6) (4) \* (5)

(7) (6) \* 100 / (3)

(8) USPS-LR-L-52 (Note: The APPS Piggyback factor includes REC keying costs)

(9) (8) \* (7)



## PARCEL POST PARCELS PRODUCTIVITY VALUES AND TY 2008 MAIL PROCESSING UNIT COST ESTIMATES

	(1) MODS Productivity	(2) Volume Variability	(3) Marginal Productivity	(4) TY 2008 Wage Rate	(5) Premium Pay	(6) Adjusted TY 2008 Wage Rate	(7) Direct Dollars Per Piece	(8) Piggyback Factor	(9) Total Dollars Per Piece
<u>Operation Description</u>	<u>Value</u>	<u>Factor</u>	<u>Value</u>	<u>Wage Rate</u>	<u>Factor</u>	<u>Wage Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Per Piece</u>
Primary Parcel Sorting Machine (PPSM)	431	0.85	507	\$37.992	0.98989	\$37.608	\$0.07	1.756	\$0.13
Secondary Parcel Sorting Machine (SPSM, including SSIU)	349	0.85	411	\$37.992	0.98989	\$37.608	\$0.09	2.464	\$0.23
Small Parcel and Bundle Sorter (SPBS) Outgoing	343	0.85	404	\$37.992	0.98989	\$37.608	\$0.09	1.677	\$0.16
SPBS Incoming	259	0.85	305	\$37.992	0.98989	\$37.608	\$0.12	1.677	\$0.21
Automated Package Processing System (APPS) Outgoing	443	0.85	521	\$37.992	0.98989	\$37.608	\$0.07	2.421	\$0.17
APPS Incoming	580	0.85	682	\$37.992	0.98989	\$37.608	\$0.06	2.421	\$0.13

(1) USPS-LR-L-56

(2) USPS-T-11, Table 1

(3) (1) / (2)

(4) USPS-LR-L-55

(5) USPS-LR-L-55

(6) (4) \* (5)

(7) (6) \* 100 / (3)

(8) USPS-LR-L-52 (Note: The APPS Piggyback factor includes REC keying costs)

(9) (8) \* (7)

# **BOUND PRINTED MATTER PARCELS PRODUCTIVITY VALUES AND TY 2008 MAIL PROCESSING UNIT COST ESTIMATES**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	<b>MODS</b>	<b>Volume</b>	<b>Marginal</b>		<b>Premium</b>	<b>Adjusted</b>	<b>Direct</b>		<b>Total</b>
<b>Operation Description</b>	<b>Productivity</b>	<b>Variability</b>	<b>Productivity</b>	<b>TY 2008</b>	<b>Pay</b>	<b>TY 2008</b>	<b>Dollars</b>	<b>Piggyback</b>	<b>Dollars</b>
	<b>Value</b>	<b>Factor</b>	<b>Value</b>	<b>Wage Rate</b>	<b>Factor</b>	<b>Wage Rate</b>	<b>Per Piece</b>	<b>Factor</b>	<b>Per Piece</b>
Primary Parcel Sorting Machine (PPSM)	431	0.85	507	\$37.992	0.98971	\$37.601	\$0.07	1.756	\$0.13
Secondary Parcel Sorting Machine (SPSM, including SSIU)	349	0.85	411	\$37.992	0.98971	\$37.601	\$0.09	2.464	\$0.23
Small Parcel and Bundle Sorter (SPBS) Outgoing	343	0.85	404	\$37.992	0.98971	\$37.601	\$0.09	1.677	\$0.16
SPBS Incoming	259	0.85	305	\$37.992	0.98971	\$37.601	\$0.12	1.677	\$0.21
Automated Package Processing System (APPS) Outgoing	443	0.85	521	\$37.992	0.98971	\$37.601	\$0.07	2.421	\$0.17
APPS Incoming	580	0.85	682	\$37.992	0.98971	\$37.601	\$0.06	2.421	\$0.13

(1) USPS-LR-L-56

(2) USPS-T-11, Table 1

(3) (1) / (2)

(4) USPS-LR-L-55

(5) USPS-LR-L-55

(6) (4) \* (5)

(7) (6) \* 100 / (3)

(8) USPS-LR-L-52 (Note: The APPS Piggyback factor includes REC keying costs)

(9) (8) \* (7)

**MEDIA MAIL PARCELS PRODUCTIVITY VALUES AND TY 2008 MAIL PROCESSING UNIT COST ESTIMATES**

<b>Operation Description</b>	<b>(1) MODS Productivity Value</b>	<b>(2) Volume Variability Factor</b>	<b>(3) Marginal Productivity Value</b>	<b>(4) TY 2008 Wage Rate</b>	<b>(5) Premium Pay Factor</b>	<b>(6) Adjusted TY 2008 Wage Rate</b>	<b>(7) Direct Dollars Per Piece</b>	<b>(8) Piggyback Factor</b>	<b>(9) Total Dollars Per Piece</b>
Primary Parcel Sorting Machine (PPSM)	431	0.85	507	\$37.992	0.98827	\$37.546	\$0.07	1.756	\$0.13
Secondary Parcel Sorting Machine (SPSM, including SSIU)	349	0.85	411	\$37.992	0.98827	\$37.546	\$0.09	2.464	\$0.23
Small Parcel and Bundle Sorter (SPBS) Outgoing	343	0.85	404	\$37.992	0.98827	\$37.546	\$0.09	1.677	\$0.16
SPBS Incoming	259	0.85	305	\$37.992	0.98827	\$37.546	\$0.12	1.677	\$0.21
Automated Package Processing System (APPS) Outgoing	443	0.85	521	\$37.992	0.98827	\$37.546	\$0.07	2.421	\$0.17
APPS Incoming	580	0.85	682	\$37.992	0.98827	\$37.546	\$0.06	2.421	\$0.13

(1) USPS-LR-L-56

(2) USPS-T-11, Table 1

(3) (1) / (2)

(4) USPS-LR-L-55

(5) USPS-LR-L-55

(6) (4) \* (5)

(7) (6) \* 100 / (3)

(8) USPS-LR-L-52 (Note: The APPS Piggyback factor includes REC keying costs)

(9) (8) \* (7)

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE

**UPS/USPS-T21-1.** Refer to library reference USPS-LR-L-46, page 3.

(a) Explain in detail why the MODS pool for "1SACKS\_M" is treated as proportional for Parcel Post in this docket when it was not treated as proportional in Docket No. R2001-1 (per Docket No. R2001-1, USPS-LR-J-64, Attachment A, page 2).

(b) Describe in detail the operations on Parcel Post mail performed in each of the pools below, and explain in detail why each pool was selected to be treated as proportional:

- i. MODS "MECPARC" pool;
- ii. MODS "1SACKS\_M" pool;
- iii. MODS "MANP" pool;
- iv. MODS "1PLATFRM" pool;
- v. MODS "1SACKS\_H" pool
- vi. MODS "LD43" pool;
- vii. Non-MODS "Allied" pool; and
- viii. Non-MODS "MANP" pool.

(c) Provide Parcel Post Base Year and Test Year costs by each MODS, BMC, and non-MODS pool broken out by basic function in a manner similar to that provided in library reference USPS-LR-J-180 in Docket No. R2001-1.

**RESPONSE:**

(a) The non-BMC MODS operations which are mapped to the "1SACKS\_M" cost pool can be found in USPS-LR-L-55, file "R2006 lr-l-55\_pt1," tab "Table I-2B, Plants-no ISC," page 5, and represent mechanized parcel sorting equipment. I classified this cost pool as proportional in Docket No. R2005-1 and the instant proceeding as it is my understanding that some non-BMC MODS facilities which still have mechanized sack sorting equipment are using those systems to sort Non Machinable Outsides (NMO) parcels. While mechanized sack sorting at non-BMCs is not explicitly included in the mail flow models, it achieves the same end as the manual sorting operation, which is explicitly included in the model (typically a sortation to the 5-digit level). I am therefore relying on the CRA adjustment factor to compensate for any cost differences related to these processing methods.

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE

(b) The MODS operations mapped to some of these cost pools can also be found in USPS-LR-L-55, as described above in the response to part (a).

i. The costs for mechanized parcel sorting operations at non-BMC MODS facilities are mapped to this cost pool. It is my understanding that some facilities which have mechanized parcel sorting systems that rely on operation number 105 are using that equipment to sort NMO parcels. The cost pool is therefore classified as proportional.

ii. Please see the response to part (a).

iii. The costs for manual parcel sorting operations at non-BMC MODS facilities are mapped to this cost pool. These operations are typically used to sort NMO / oversized parcels and are included in the NMO and oversized cost models. This cost pool is therefore classified as proportional.

iv. The costs for platform-related tasks at non-BMC MODS facilities, such as moving, loading and unloading containers, are mapped to this cost pool. These operations are included in the cost models. This cost pool is therefore classified as proportional.

v. The costs for manual sack sorting operations at non-BMC MODS facilities are mapped to this cost pool. It is my understanding that some facilities process NMO parcels in these operations, similar to the manner in which NMO parcels are processed in mechanized operations as described above. This cost pool is therefore classified as proportional.

vi. The costs for some customer service manual parcel sorting operations used to be mapped to this cost pool. It therefore has been classified as proportional in

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE

the past. It is my understanding that these costs are now mapped elsewhere.

Consequently, the value of this cost pool is now 0.000.

vii. The costs for platform-related tasks at non-BMC non-MODS facilities, such as moving, loading and unloading containers, are mapped to this cost pool.

These operations are included in the cost models. This cost pool is therefore classified as proportional.

viii. The costs for manual parcel sorting operations at non-BMC non-MODS facilities are mapped to this cost pool. These operations are typically used to sort NMO / oversized parcels and are included in the NMO and oversized cost models. This cost pool is therefore classified as proportional.

(c) Redirected to witness Talmo.

**RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE**

**UPS/USPS-T21-2.** Refer to library reference USPS-LR-L-46, Page 4.

(a) Confirm that the source of the productivity of the "Parcel Sort at DU" is testimony from Docket No. R84-1 dealing with Bound Printed Matter.

- i. If confirmed, explain in detail why this is an acceptable source to use in Docket No. R2006-1 for Parcel Post. If not confirmed, explain in detail.
- ii. Provide a copy of USPS-LR-J-64, Attachment D, from Docket No. R2001-1.

(b) Confirm that the "Parcel Sort at DU" productivity of 509.4 units per workhour is derived by dividing 433 by the Variability Factor of 0.85 for the Non-BMC Non-MODS Manual Parcels Sort. If not confirmed, explain in detail.

(c) Confirm that this productivity assumption of 509.4 units per hour is used in USPS-LR-L-46 to derive a Test Year cost of 10.7 cents per piece for sortation of Parcel Post pieces at the DU to individual carrier routes. If not confirmed, explain in detail.

(d) Refer to library reference USPS-LR-L-46, page 3. Confirm that the cost for Parcel Post in the Test Year in the Non-MODS "MANP" pool is 26.029 cents per piece. If not confirmed, explain in detail.

(e) Explain in detail the reasons for the difference between the 10.7 cents per piece derived using the 509.4 pieces per hour productivity assumption and the 26.029 cents per piece in the Non-MODS "MANP" pool.

**RESPONSE:**

(a) I can confirm that the specified citation is the source for the base 433 pieces per hour figure relied upon by witness Eggleston in Docket No. R2001-1. The figure was used by witness Eggleston in both the Bound Printed Matter and Parcel Post models. In the instant proceeding, I also rely on the same base figure for both the Parcel Post and Bound Printed Matter cost models. While we relied upon the same base productivity value, our marginal productivity values were not identical due to volume variability factor differences.

- i. Delivery Unit incoming secondary parcel sorting operations are used to manually sort all parcels, regardless of class. I am not aware of any reasons why the productivity in that operation for Parcel Post would differ from the productivity

RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE

in that operation for Bound Printed Matter. I am also not aware of any studies in which an attempt was made to update this figure.

ii. Please see the attached Excel spreadsheet.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) I do not know. With the exception of Parcel Return Service (PRS) mail, every parcel in the cost model is processed through a Delivery Unit manual incoming secondary sorting operation and incurs a cost of 10.7 cents. To the extent that the productivity figure that has been relied upon for several cases now is incorrect, or does not cover all the tasks associated with this cost pool, the impact on the rate category cost estimates should be minimized due to the fact that a proportional CRA adjustment factor has been applied.



RESPONSE OF POSTAL SERVICE WITNESS MILLER TO  
INTERROGATORY OF UNITED PARCEL SERVICE

**UPS/USPS-T21-3.** Refer to library reference USPS-LR-L-82, WP-PP-1 and 10.

(a) Confirm that the average cubic feet per piece in the Test Year for Parcel Post pieces is:

- i. 0.54 for Intra-BMC and Inter-BMC parcels:  
 $((16,194,935+46,927,911)/(34,446,158+81610,937))$ ; and
- ii. 0.76 for Parcel Select parcels:  
 $(216,062,362/(69,001,873+2,139,320+215,597,295))$ .

If not confirmed, explain in detail.

(b) Confirm that in library reference USPS-LR-L-46, the Postal Service made no adjustment for the differing average sizes of Intra-BMC and Inter-BMC parcels versus Parcel Select parcels. If not confirmed, explain in detail.

(c) Do you agree that the smaller the parcel, the more parcels that fit in a container, and hence the smaller the processing cost per parcel? If you do not agree, explain in detail.

**RESPONSE:**

(a) i. Confirmed that performing the described calculation using the specified volume and cubic feet figures from USPS-LR-L-82 is equivalent to 0.544.

ii. Confirmed that performing the described calculation using the specified volume and cubic feet figures from USPS-LR-L-82 is equivalent to 0.754.

(b) Confirmed. For the past several cases, the cubic feet data have been used to account for the size differences between machinable, nonmachinable, and oversize mail pieces. The cubic volume estimates for these three mail types have been calculated for all of Parcel Post; they have not been calculated by rate category, or groupings of rate categories. Rate category cubic volume differences should not be introduced into the analysis because USPS-LR-L-46 measures the cost savings incurred as a given mail piece moves from a non-worksharing rate category to a worksharing rate category, and any given mail piece obviously has the same cubic volume as itself. Also, please see the response of witness Eggleston to UPS/USPS-T25-3(d) in Docket No. R2001-1 (Tr. 11A/3965-67).

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(c) In general, yes.

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**UPS/USPS-T25-3.**

Refer to library reference USPS-LR-J-106, WP-PP-1, 8, 9, and 10.

- (a) Do you continue to agree, as you testified in Docket No. R2000-1 (Tr. 13/5108), that "The smaller the parcel, the more parcels that fit in a container, and hence, the smaller the cost per parcel"?
- (b) Confirm that the average cubic foot per piece in the Test Year for Parcel Post pieces is:
  - i. 0.51 for intra-BMC (Bulk Mail Center) parcels (12,881,937 / 25,332,087),
  - ii. 0.64 for inter-BMC parcels (26,132,684 / 40,677,615),
  - iii. 0.74 for Destination Bulk Mail Center ("DBMC") parcels (164,144,783 / 220,681,929),
  - iv. 0.81 for Destination Sectional Center Facility ("DSCF") parcels (7,718,459 / 9,524,655), and
  - v. 0.79 for Destination Delivery Unit ("DDU") parcels (83,894,504 / 105,929,135). If not confirmed, explain in detail.
  - vi. If any of these are not confirmed, explain in detail.
- (c) Confirm that, on average, a container will hold 45 percent more intra-BMC parcels than DBMC parcels. If not confirmed, explain in detail.
- (d) Confirm that in library reference USPS-LR-J-64, Attachment A, you made no adjustment for the differing average sizes of intra-BMC, inter-BMC, DBMC, DSCF, and DDU parcels in deriving the worksharing savings for DBMC, DSCF, and DDU parcels. If confirmed, explain why you did not make such an adjustment. If not confirmed, explain in detail.
- (e) Confirm that in library reference USPS-LR-J-64, Attachment B, size differentials between intra-BMC, inter-BMC, and DBMC, DDU, and DSCF parcels are taken into account in determining the specific transportation costs for intra-BMC, inter-BMC, DBMC, DDU, and DSCF parcels. If not confirmed, explain in detail.

**RESPONSE:**

(a). Yes. I continue to agree with my previous statement.

(bi-bvi). Confirmed that these are the values derived by dividing TYBR volumes by

TYBR cubic feet as estimated in LR-J-106.

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(c). Confirmed that the value calculated for DBMC in part b is 45 percent larger than the value calculated for inter-BMC.

(d). Confirmed. Historically, the Parcel Post mail processing cost models only have taken into account cube differences between *machinable, nonmachinable and oversize nonmachinable* parcels. The reason for this decision is that the cube differentials are related to the rate category differentials. Cube is one of the reasons that parcels are either nonmachinable or oversize.

The problem with using rate-specific cube is that it is difficult to do so in a manner that would give the appropriate cost savings estimates. The purpose of the mail processing cost models is to measure the costs that the parcels avoid. In other words, the costs the parcel would avoid if that parcel were not workshared. Therefore, to use rate-specific cube estimates, the cost savings of a DBMC machinable parcel would be estimated by comparing the modeled costs of a parcel with the average DBMC cube in the intra-BMC machinable mailstream to the modeled costs of a parcel with the average DBMC cube in the DBMC machinable mailstream. The problem with this methodology is that it would overstate the DBMC cost savings for those parcels whose cube is lower than the average DBMC cube.

The other theoretical way to use rate-specific cube is to use a different cube for each rate category. In other words, estimate the DBMC machinable cost savings by

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comparing the average cost of a parcel with the average *intra-BMC* cube in the intra-BMC machinable mailflow model with the cost of a parcel with the average *DBMC* cube in the DBMC machinable mailflow model. The problem with this methodology is that it would understate the true cost savings of a parcel with an average DBMC cube.

In order to avoid these complications, the Parcel Post mail processing model uses the average cube of machinable, nonmachinable, and oversize Parcel Post in the mail processing model.

(e). Not confirmed. Since the costs are estimated on a per cubic foot basis, holding all else equal, the Parcel Post transportation model would estimate the same cost per cubic foot for all rate categories. Cubic feet is used, in combination with number of legs traveled, to allocate total Parcel Post transportation costs to inter-BMC, intra-BMC, DBMC, DSCF and DDU. However, the estimated cost per zone is eventually divided by cubic feet. Therefore, while a rate category may have more costs allocated to it due to having more cubic feet, it will also have that cost divided by a larger number.

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**UPS/USPS-T21-4.** Refer to library reference USPS-LR-L-46, page 7.

(a) Confirm that 5.3% of Inter-BMC parcels and 3.8% of Intra-BMC parcels are "retail." If not confirmed, explain in detail.

- i. Define "retail" as used here.
- ii. Are parcels picked up by carriers "retail" parcels? Explain in detail.
- iii. Explain in detail how the figures of 5.3% and 3.8% were derived.
- iv. Provide the relevant pages from the GFY 2005 RPW report and any other data sources used in this calculation.

(b) Confirm that the similar calculation in library reference USPS-LR-J-64 in Docket No. R2001-1 found that 36.7% of Inter-BMC Parcel Post and 32.2% of Intra-BMC Parcel Post were "retail." If confirmed, explain why these retail percentages have decreased. If not confirmed, explain in detail.

(c) Identify the categories that comprise the total GFY 2005 RPW Inter-BMC and Intra-BMC Parcel Post volume, of which "non-discount stamp/meter" is one, and provide the volume in each category.

(d) Identify the various ways that Inter-BMC and Intra-BMC parcels can be entered into the Postal Service. Identify and provide any supporting data on the volume entered under each possible entry method.

**RESPONSE:**

(a) Confirmed that the specified figures are in USPS-LR-L-46. It has been determined that my calculations are incorrect. Please see the revised InterBMC and IntraBMC retail percentages of 72.05 percent and 86.71 percent, respectively, as shown on the attached Excel spreadsheet. The cost models found in USPS-LR-L-46 and USPS-LR-L-103 will be updated to reflect these new values.

i. "Retail" mail pieces are defined to be any non-Parcel Select mail piece with stamp or PVI indicia. These percentages are then used as "number of handlings" values in the Inter-BMC and Intra-BMC models to reflect the percentage of mail that was processing through an outgoing delivery unit.

ii. I would assume that they could be to the extent they have stamp or PVI indicia.

iii. The specified figures have been revised. The revised figures were estimated to be the RPW volume of non-discount stamp/meter mail for each rate category

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divided by the volume for each rate category. Please see the attached Excel spreadsheet for the specific mail category codes that are involved in the calculation.

iv. The data upon which the figures on the attached Excel spreadsheet are based can be found in USPS-LR-L-87.

(b) Confirmed. I do not know why these figures differ from the revised figures.

(c) Please see the attached Excel spreadsheet.

(d) It is my understanding that InterBMC and IntraBMC are entered in the following ways: through normal retail channels, through Business Mail Entry Units (BMEU) through plant loads, or through dropshipments. I am not aware of any studies in which an attempt was made to determine the volume entered for these various methods.

**PARCEL POST RETAIL PERCENTAGE CALCULATIONS FOR INTRABMC AND INTERBMC  
FY 2005 RPW DATA (Source: USPS-LR-L-87)**

DESCRIPTION	MAILCAT	PIECES	LABEL
Non Retail	25165	1,578,095	PSVC INTRA-BMC ALASKA BYPASS PARCEL POST
Non Retail	4100	3,690,839	PSVC INTER-BMC MACH PARCEL POST
Non Retail	4105	1,151,457	PSVC INTRA-BMC MACH PARCEL POST
Non Retail	4115	2,486,515	PSVC BCODE INTER-BMC MACH PARCEL POST
Non Retail	4120	260,516	PSVC BCODE INTRA-BMC MACH PARCEL POST
Non Retail	4125	273,670	PSVC ORIGIN BMC PRES INTER-BMC MACH PARCEL POST
Non Retail	4130	13,491	PSVC ORIGIN BMC PRES BCODE INTER-BMC MACH PARCEL POST
Non Retail	4135	2,107	PSVC ORIGIN BMC PRES INTER-BMC NONMACH PARCEL POST
Non Retail	4140	307,669	PSVC BMC PRES INTER-BMC MACH PARCEL POST
Non Retail	4145	552,338	PSVC BMC PRES BCODE INTER-BMC MACH PARCEL POST
Non Retail	4150	370,784	PSVC INTER-BMC NONMACH PARCEL POST
Non Retail	4180	11,590	PSVC BMC PRES INTER-BMC NONMACH PARCEL POST
Non Retail	4190	142,441	PSVC INTRA-BMC NONMACH PARCEL POST
Non Retail	510CCBAAM	1,398,713	PSVC PARCEL POST INTRA-BMC BC MACH L/F/I/P NON-PERM IMP
Non Retail	510CDBAAM	2,920	PSVC PARCEL POST INTRA-BMC BC MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510ECBAAM	1,755,907	PSVC PARCEL POST INTER-BMC BC MACH L/F/I/P NON-PERM IMP
Non Retail	510EDBAAM	0	PSVC PARCEL POST INTER-BMC BC MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510FBAAM	5,415	PSVC PARCEL POST INTER-BMC BMC PRES OVERSIZED L/F/I/P NON-PERM IMP
Non Retail	510FCBAAM	354,264	PSVC PARCEL POST INTER-BMC BMC PRES MACH L/F/I/P NON-PERM IMP
Non Retail	510FDBAAM	1,695	PSVC PARCEL POST INTER-BMC BMC PRES MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510FEBAAM	185,832	PSVC PARCEL POST INTER-BMC BMC PRES NONMACH L/F/I/P NON-PERM IMP
Non Retail	510FFBAAM	3,188	PSVC PARCEL POST INTER-BMC BMC PRES NONMACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510GCBAAAM	54,983	PSVC PARCEL POST INTER-BMC BMC PRES BC MACH L/F/I/P NON-PERM IMP
Non Retail	510GDBAAM	615	PSVC PARCEL POST INTER-BMC BMC PRES BC MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510HBAAM	68,178	PSVC PARCEL POST INTER-BMC OBMC PRES OVERSIZED L/F/I/P NON-PERM IMP
Non Retail	510HDBAAM	1,347,613	PSVC PARCEL POST INTER-BMC OBMC PRES MACH L/F/I/P NON-PERM IMP
Non Retail	510HDBAAM	14,149	PSVC PARCEL POST INTER-BMC OBMC PRES MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510HEBAAM	7,482,601	PSVC PARCEL POST INTER-BMC OBMC PRES NONMACH L/F/I/P NON-PERM IMP
Non Retail	510HFBAAAM	266,731	PSVC PARCEL POST INTER-BMC OBMC PRES NONMACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	510JCBAAAM	2,269,176	PSVC PARCEL POST INTER-BMC OBMC PRES BC MACH L/F/I/P NON-PERM IMP
Non Retail	510JDBAAM	24,343	PSVC PARCEL POST INTER-BMC OBMC PRES BC MACH BALLOON L/F/I/P NON-PERM IMP
Non Retail	Subtotal IntraBMC	4,534,142	
Non Retail	Subtotal InterBMC	21,543,693	
Non Retail	Total Non Retail	26,077,835	
Retail	510BBBAAM	41,443	PSVC PARCEL POST INTRA-BMC OVERSIZED L/F/I/P NON-PERM IMP
Retail	510BCBAAM	23,516,809	PSVC PARCEL POST INTRA-BMC MACH L/F/I/P NON-PERM IMP
Retail	510BDBAAM	10,855	PSVC PARCEL POST INTRA-BMC MACH BALLOON L/F/I/P NON-PERM IMP
Retail	510BEBAAM	5,921,809	PSVC PARCEL POST INTRA-BMC NONMACH L/F/I/P NON-PERM IMP
Retail	510BFBAAM	82,726	PSVC PARCEL POST INTRA-BMC NONMACH BALLOON L/F/I/P NON-PERM IMP
Retail	510DBBAAM	9,994	PSVC PARCEL POST INTER-BMC OVERSIZED L/F/I/P NON-PERM IMP
Retail	510DCBAAM	53,661,607	PSVC PARCEL POST INTER-BMC MACH L/F/I/P NON-PERM IMP
Retail	510DDBAAM	5,841	PSVC PARCEL POST INTER-BMC MACH BALLOON L/F/I/P NON-PERM IMP
Retail	510DEBAAM	1,773,912	PSVC PARCEL POST INTER-BMC NONMACH L/F/I/P NON-PERM IMP
Retail	510DFBAAM	78,542	PSVC PARCEL POST INTER-BMC NONMACH BALLOON L/F/I/P NON-PERM IMP
Retail	Subtotal IntraBMC	29,573,642	
Retail	Subtotal InterBMC	55,529,896	
Retail	Subtotal Retail	85,103,538	
	Total IntraBMC	34,107,784	
	Total InterBMC	77,073,589	
IntraBMC Retail Percent		86.71%	
InterBMC Retail Percent		72.05%	



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**UPS/USPS-T21-5.** Refer to library reference USPS-LR-L-46, pages 4 and 21.

(a) Confirm that the productivity at the DDU of the Move Containers from Dock operation of 31.3 units per hour is based on the productivity of the crossdock container operation of 7.8 units per hour multiplied by 4. If confirmed, explain why the productivity was multiplied by 4. If not confirmed, explain in detail.

(b) Confirm that the basis for the crossdock container productivity is a sample of productivities at BMCs in 1982. If not confirmed, explain in detail.

(c) Provide a copy of LR-H-132, page 329, in Docket No. R97-1.

(d) Provide and describe in detail all studies and analyses conducted by the Postal Service to assess the productivity of the move operation at the DDU.

(e) Confirm that DDU-entry parcel volume represents more than 50% of the total Parcel Post volume in the Test Year. If not confirmed, explain in detail.

**RESPONSE:**

(a) Confirmed. This same assumption has been used in the Parcel Post cost models for the past few cases. Please see the response of witness Eggleston to UPS/USPS-T25-9(b) in Docket No. R2001-1 (Tr. 11A/3982-83).

(b) Not confirmed. The crossdock productivity used in USPS-LR-L-46 (6.659 pieces per hour) is derived from Docket No. R97-1, USPS-LR-H-132, which calculated productivities based on volume / work hour reports provided by a sample of six BMCs during FY 1996.

(c) Please see the attached.

(d) I am not aware of any studies that have been conducted in order to assess the DDU productivity.

(e) I can confirm this statement based on the data presented in USPS-LR-L-82.

## BMC Productivity Study

## Activity Results Using Weighted, Cleaned Data

OBS	CAT	PROD
1	Unload sacked mach parcels	176.917
2	Unload mach parcels to ext conv	589.136
3	Unload NMOs	152.653
4	Unload NMOs to IHCs only	145.779
5	Unload OTRs and other wheeled cont	19.707
6	Unload pallets/postal paks/gaylords	11.606
7	Dump pallets/postal paks/gaylords	6.330
8	Sack shake-out	70.861
9	Tend container loaders	5.313
10	Crossdock pallets/postal paks/gaylords	6.659
11	Sack and tie	122.887
12	Load NMOs from IHCs	167.097
13	Bedload sacked mach parcels	172.682
14	Load OTRs and other wheeled cont	9.849
15	Load pallets/postal paks/gaylords	12.671

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UPS/USPS-T25-9.

Refer to library reference USPS-LR-J-64, Attachment A, pages 8-16.

- (a) Confirm that the crossdock operation of containers at the Origin SCF (Sectional Center Facility) is assumed to take 7.0 containers per hour, or 8.6 minutes per container. If not confirmed, explain in detail. Explain why it would take 8.6 minutes to roll a hamper or OWC (Other Wheeled Container) on the platform to the loading area of the truck going from the Origin SCF to the BMC.
- (b) Confirm that the move operation at the DDU (Destination Delivery Unit) is assumed to be 4 times as fast as a crossdock operation. If confirmed, explain the basis for this assumption. If not confirmed, explain in detail.
- (c) Confirm that the move operation at the Destination SCF is assumed to be 2 times as fast as a crossdock operation. If confirmed, explain the basis for this assumption. If not confirmed, explain in detail.

**RESPONSE:**

(a). Confirmed. This productivity was developed in LR-H-131. It is my understanding that this productivity is a sample of actual productivities at BMCs. It is further my understanding that measures of productivity are not necessarily limited to the time it takes to actually move a container from one point to another. Examples of other activities included are moving other containers out of the way to reach the container, moving other containers out of the way to clear a space to move the container, and waiting for people or other objects to clear the path.

(b). Confirmed. It is my understanding, from my knowledge of MTM studies, that one of the factors that impacts move times is distance traveled. Not only does the actual moving of the container take longer, but also the probability of having to move other objects (or wait for them to move) increases as distance increases. From my visits to

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AOs and BMCs, I know that AOs are much smaller than BMCs. Therefore, it should take significantly less time to move containers.

(c). Confirmed. The assumption is that a move is approximately half the distance of a crossdock.

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**UPS/USPS-T21-6.** Refer to library reference USPS-LR-L-46, page 21.

(a) Provide and describe in detail all studies and analyses conducted by the Postal Service to assess the number of pieces per container of DDU-entry Parcel Post and non-DDU-entry Parcel Post mail.

(b) Confirm that for DDU-entry Parcel Post:

- i. At least 50 pieces must be in a single mailing;
- ii. the pieces comprising a single mailing can be entered at more than one DDU;
- iii. the single mailing can be on a mailer's truck that dropships non-Parcel Post mail at the DDU;
- iv. the pieces comprising the single mailing can be on a number of the mailer's trucks each of which can be entering the pieces at multiple DDUs; and
- v. the mailer can obtain the DDU rate for the mailer's Parcel Post pieces comprising the single mailing even though the number of pieces dropped at any particular DDU can be as low as one piece from any given truck of the mailer.

If any part above is not confirmed, explain in detail.

(c) Confirm that the pieces per container for the move operation at the DDU are assumed to be the same for DDU-entry Parcel Post as for all of the other Parcel Post rate categories that arrive at the DDU from within the Postal Service system. If confirmed, explain why this assumption is appropriate. If not confirmed, explain in detail.

**RESPONSE:**

(a) To the best of my knowledge, no such studies have been conducted.

(b) i. Confirmed.

ii. Confirmed.

iii. Confirmed.

iv. Confirmed.

v. Confirmed.

(c) Confirmed. This assumption is used in USPS-LR-L-46 as no DDU-specific data are available. It should be noted that while mailers can enter a small number of DDU

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pieces at a given facility, they may not necessarily be doing so, since they must incur costs associated with dropping the DDU pieces at a given facility.

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**UPS/USPS-T21-7.** Refer to library reference USPS-LR-L-46, page 34, in this docket, USPS-LR-J-64, Attachment A, page 27, in Docket No. R2001-1, and USPS-T-26, Attachment F, page 1, in Docket No. R2000-1.

(a) Confirm that the Postal Service's calculated DBMC window service cost savings are/were:

- i. 30.1 cents per piece in this docket;
- ii. 13.5 cents per piece in Docket No. R2001-1; and
- iii. 10.5 cents per piece in Docket No. R2000-1.

If not confirmed, explain in detail.

(b) Explain in detail the reasons why the DBMC window service cost savings since Docket No. R2000-1 have more than doubled.

(c) Confirm that less than 5% of aggregate Intra-BMC and Inter-BMC Parcel Post volume is window-entered. If not confirmed, explain in detail.

(d) Confirm that the window service costs being allocated to this window-entered volume is more than \$6.44 per piece (0.3233 per piece for Non-Parcel Select divided by 0.05). If not confirmed, explain in detail.

**RESPONSE:**

(a) Confirmed.

(b) I do not know the underlying reasons, other than to say that the window service cost difference between Parcel Select and non-Parcel Select, as presented in USPS-LR-L-86, has increased.

(c) Not confirmed. I assume that this figure is based on the retail percentages for InterBMC and IntraBMC found in USPS-LR-L-46. Please see my response to UPS/USPS-T21-4.

(d) I can confirm that dividing the non-Parcel Select cost per piece figure of \$0.3233 from USPS-LR-L-46 by the specified volume figure equals \$ 6.466.

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**UPS/USPS-T21-8.** Refer to footnote 8 on page 7 of USPS-T-21. Confirm that correcting the piggyback factors would decrease the DDU cost savings compared to DBMC for machinable parcels from \$1.072 to \$1.037. If not confirmed, explain in detail.

**RESPONSE:**

Confirmed.



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**UPS/USPS-T21-9.** Refer to the Attachment to the response to UPS/USPS-T21-4 listing RPW volume data for inter-BMC and intra-BMC parcels in FY2005.

- (a) Confirm that the number of non-machinable intra-BMC pieces in Y2005 was 6,146,976 (mail categories 4190, 510BEBAAM, and 10BFBAAM), representing 18% of the intra-BMC volume in FY2005 of 34,107,784. If not confirmed, explain in detail.
- (b) Confirm that the number of non-machinable inter-BMC pieces in FY2005 was 10,175,287 (mail categories 4135, 4150, 4180, 510FEBAAM, 510FFBAAM, 510HEBAAM, 510HFBAAM, 510DEBAAM, and 510DFBAAM), representing 13% of the inter-BMC volume in FY2005 of 77,073,589. If not confirmed, explain in detail.
- (c) Refer to library reference UPS-LR-L-82, WP-PP-4 and WP-PP-5, listing the FY2005 billing determinants for intra-BMC and inter-BMC Parcel Post. Confirm that 18.9% of intra-BMC pieces and 13.2% of inter-BMC pieces are listed as nonmachinable. If not confirmed, explain in detail.
- (d) Refer to library reference USPS-LR-L-46, page 7. Confirm that 94.7% of intra-BMC pieces and 94.7% of inter-BMC parcels are listed as machinable in FY2005 and the source is USPS-LR-L-47.
  - i. If confirmed, explain the reason for the mismatch between the intra-BMC and inter-BMC machinable/non-machinable shares from the billing determinants and calculated from the RPW data discussed in parts (a)-(c) of this interrogatory above, in comparison to the estimates contained on page 7 of USPS-LR-L-46.
  - ii. If not confirmed, explain in detail.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed. It is my understanding that in the RPW system any nonrectangular parcel is classified as nonmachinable. In USPS-LR-L-47, parcels are classified as machinable unless one of the following attributes is present: the

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weight exceeds 35 pounds or the length exceeds 34 inches (please note that the narrative in USPS-LR-L-47 indicating that a "length + girth > 84 inches" criterion is also used is incorrect). Given that these attributes more accurately reflect those of nonmachinable parcels, the machinable and nonmachinable Parcel Post volume estimates contained in USPS-LR-L-47 are regarded to be more compatible with the use in the cost models than those contained in RPW.

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**UPS/USPS-T21-10.** Refer to library reference USPS-LR-L-46, page 8.

- (a) Explain in detail the reasons for:
  - i. The 27% increase in cubic feet per piece for machinable Parcel Post pieces from FY2004 (0.425 cubic feet/piece) to FY2005 (0.541 cubic feet/piece).
  - ii. The 35% decrease in cubic feet per piece for non-machinable Parcel Post pieces from FY2004 (2.777 cubic feet per piece) to FY2005 (1.819 cubic feet per piece).
- (b) Confirm that the source of the cubic feet per piece data for Parcel Post is library reference USPS-LR-L-47.
  - i. If confirmed, could the changes from FY2004 to FY2005 be the result of a miscalculation in the volume split between machinable and non-machinable parcels in USPS-LR-L-47? Explain your answer in detail.
  - ii. If not confirmed, explain in detail.
- (c) Provide a hard-copy print-out (.pdf) of the output files in USPS-LR-L-47, and identify the specific pages/lines/columns that serve as the source of the volume and cubic foot data used in USPS-LR-L-46.

**RESPONSE:**

- (a) In Docket No. R2005-1, an adjustment factor was applied to the PERMIT imprint Parcel Post dropship volume data and not the corresponding cubic feet data. In the instant proceeding, this adjustment factor has been applied to both datasets. The adjustment factor represents the ratio of PostalOne volume data to RPW volume data. The Docket No. R2006-1 cubic volume estimates are now more in line with those presented in Docket Nos. R2001-1 and R2000-1 (please see the table at the bottom of USPS-LR-L-46, page 8).
- (b) Confirmed. Please see the response to part (a) above.
- (c) The missing pages from the CD-ROM version of USPS-LR-L-47 were filed on July 11, 2006. (This material was available in the hardcopy version of USPS-LR-



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L-47.) The output can be found in the "attachment f.pdf" file. The calculations were performed as follows:

**InterBMC Volume Percent Estimates (USPS-LR-L-46, page 7)**

Total machinable pieces	=	75,796,072 (Table 4, page 12 grand total)
Total nonmachinable pieces	=	4,268,779 - 100,435
	=	4,168,344 (Table 5, page 14 grand total less "O" line total)
Total oversize pieces	=	100,435 (Table 5, page 14 "O" line total)
Machinable percent	=	$75,796,072 / (75,796,072 + 4,168,344 + 100,435)$ = 94.7 %
Nonmachinable percent	=	$4,168,344 / (75,796,072 + 4,168,344 + 100,435)$ = 5.2 %
Oversize percent	=	$100,435 / (75,796,072 + 4,168,344 + 100,435)$ = 0.125 %

**IntraBMC Volume Percent Estimates (USPS-LR-L-46, page 7)**

Total machinable pieces	=	27,978,170 (Table 1, page 6 grand total)
Total nonmachinable pieces	=	1,560,302 - 30,055
	=	1,530,247 (Table 2, page 8 grand total less "O" line total)
Total oversize pieces	=	30,055 (Table 2, page 8 "O" line total)
Machinable percent	=	$27,978,170 / (27,978,170 + 1,530,247 + 30,055)$ = 94.7 %
Nonmachinable percent	=	$1,530,247 / (27,978,170 + 1,530,247 + 30,055)$ = 5.2 %

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$$\begin{aligned}\text{Oversize percent} &= 30,055 / (27,978,170 + 1,530,247 + 30,055) \\ &= 0.102 \%\end{aligned}$$

**DBMC Volume Percent Estimates (USPS-LR-L-46, page 7)**

Total machinable pieces = 265,797,297  
(Table 7, page 18 grand total)

Total nonmachinable pieces = 4,131,970 - 51,785  
= 4,080,185  
(Table 8, page 20 grand total less "O"  
line total)

Total oversize pieces = 51,785 (Table 8, page 20 "O" line total)

Machinable percent =  $265,797,297 / (265,797,297 + 4,080,185 + 51,785)$   
= 98.5 %

$$\begin{aligned}\text{Nonmachinable percent} &= 4,080,185 / (265,797,297 + 4,080,185 + 51,785) \\ &= 1.5 \%\end{aligned}$$

Oversize percent =  $51,785 / (265,797,297 + 4,080,185 + 51,785)$   
= 0.019 %

**Machinable Cubic Volume Estimate (USPS-LR-L-46, page 8)**

Total machinable cu ft = 199,805,815  
(Table 22, page 48 grand total)

Total machinable pieces = 369,571,539  
(Table 10, page 24 grand total)

Machinable cu ft / pc = 199,805,815 / 369,571,539  
= 0.541 cu ft / pc

### Nonmachinable Cubic Volume Estimate (USPS-LR-L-46, page 8)

Total nonmachinable cu ft	=	18,902,856 - 1,117,110
	=	17,785,746
		(Table 23, page 50 grand total less "O" line total)

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Total nonmachinable pieces	=	9,961,051 - 182,275
	=	9,778,776
		(Table 11, page 26 grand total less "O" line total)

Nonmachinable cu ft / pc	=	17,785,746 / 9,778,776
	=	1.819 cu ft / pc

**Oversize Cubic Volume Estimate (USPS-LR-L-46, page 8)**

Total oversize cu ft	=	1,117,110
	=	(Table 23, page 50 "O" line total)

Total oversize pieces	=	182,275
		(Table 11, page 26 "O" line total)

Oversize cu ft / pc	=	1,117,110 / 182,275
	=	6.129 cu ft / pc

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**UPS/USPS-T21-11.** Refer to your response to UPS/USPS-T21-1(b)(viii).

- (a) Confirm that non-BMC non-MODS facilities do not include SCFs. If not confirmed, explain in detail.
- (b) Confirm that the costs for manual sortation of parcels at non-BMC non-MODS facilities would be comprised of sortation of parcels at the Destination Delivery Unit to carrier route. If not confirmed, explain in detail.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.



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**UPS/USPS-T21-12.** Refer to your response to UPS/USPS-T21-7 and Docket No. R2005-1, USPS-LR-K-46, page 27.

- (a) Confirm that the Postal Service's calculated DBMC window service cost savings were 20.0 cents per piece in Docket No. R2005-1 based on FY2004 data. If not confirmed, explain in detail.
- (b) Confirm that the 30.1 cents per piece in DBMC window service cost savings in this docket is based on FY2005 data.
- (c) Explain the reasons for the more than 50% increase in the window service cost savings from FY2004 to FY2005.
- (d) Explain the reasons for the increase in Parcel Post Window Service Cost Segment 3.2 costs from \$15.7 million in FY2004 to \$27.2 million in FY2005.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) I do not know the underlying reasons, other than to say that the costs found in USPS-LR-L-86 have increased.

(d) Redirected to witness Milanovic (USPS-T-9).

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**UPS/USPS-T21-13.** Refer to your response to UPS/USPS-T21-2(e), UPS/USPS-T21-5(d) and UPS/USPS-T21-7(b). What special studies do you believe would be most desirable to undertake to improve/refine the Parcel Post mail processing cost estimates in USPS-LR-L-46?

**RESPONSE:**

Assuming time and resource constraints were not an issue, I suppose there are a number of special studies that could be conducted to "refine" the model presented in USPS-LR-L-46. I have not, however, conducted such an examination of the model, or attempted to establish priorities regarding the entire range of possible studies.

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**UPS/USPS-T21-14.** Refer to USPS-LR-L-46, pages 7 and 34.

- (a) Confirm that the Parcel Select BY 2005 volume of 276,623,565 in Row 9 on page 34 includes 6,692,322 PRS parcels from page 7. If not confirmed, explain in detail.
- (b) Confirm that mailers enter the PRS parcels at any post office, station, branch, or collection box, with any letter carriers, as part of a collection run for other mail, or at any place designated by the postmaster for the receipt of mail (see DMM 507.11.1.4). If not confirmed, explain in detail.
- (c) Refer to USPS-LR-L-86, workbook file LR86PPWIN.xls, worksheet "Data." Would PRS parcels be treated as dropship or non-dropship in the IOCS activity codes? Explain your answer in detail.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) It is my understanding that PRS mail would likely be treated as "dropship" mail in the IOCS activity codes. It is also my understanding that it is not possible to distinguish between any PRS-related tallies and non-PRS Parcel Select tallies at this time.

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**UPS/USPS-T21-15.** Refer to the response to UPS/USPS-T37-2 and the Inter-BMC mail processing models in USPS-LR-L-46, pages 9-11. Explain in detail any differences there are between the mail processing steps listed for Inter-BMC parcels in USPS LR-L-46 and the mail processing steps that take place for OMAS volume.

**RESPONSE:**

To the best of my knowledge, no data are available which could be used to determine the extent to which the mail processing steps for OMAS mail might differ from those found in the Inter-BMC cost models in USPS-LR-L-46, pages 9 to 11.

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**UPS/USPS-T21-16.** Refer to USPS-LR-L-46, pages 7 and 8. Should the Cubic Feet per Parcel Post for R2006 (BY05) for the Machinable, NMO, and 108"-130" categories listed on page 8 multiplied by the total volumes for these three categories listed on page 7 match the total Parcel Post cubic feet for BY2005 listed on USPS-T-9, Exhibit USPS-9C, Cost and Revenue Analysis, Base Year 2005, page 3? If not, explain in detail.

**RESPONSE:**

No. The cubic feet estimate in the CRA is based on the average weight per cubic foot of 5.0 for Parcel Post in aggregate, a figure which has not been updated for several years. The cubic feet estimates contained in USPS-LR-L-47 have been developed for machinable, nonmachinable, and oversize mail pieces using data collected during the actual sampling of Parcel Post mail pieces.

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**UPS/USPS-T21-17.** Refer to USPS-LR-L-46, page 7, columns [1] through [6]. Identify and provide all analyses and the underlying source data regarding the percentage of Parcel Post volume that is machinable, non-machinable (non-oversize), and oversize specifically for: (a) DBMC parcels; (b) DSCF parcels; (c) DDU parcels; (d) RBMC parcels; and (e) RDU parcels. Include in each answer a detailed explanation of the analytic steps used to derive these figures.

**RESPONSE:**

(a) - (c) Using data from USPS -LR-L-47, attachment f, the percentage distribution of machinable, NMO, and oversize mail pieces for the DBMC, DSCF, and DDU rate categories can be calculated in aggregate. These data are labeled as "destination dropped shipped" in that library reference. The calculations can be found in the response to UPS/USPS-T21-10(c) and are referred to as "DBMC Volume Percent Estimates."

(d) Given that Parcel Return Service (PRS) mail pieces are not represented in the USPS-LR-L-47 data, I used the actual FY 2005 RPW machinable, NMO, and oversize volumes for the RBMC rate category to calculate the percentages, as shown below.

RBMC Machinable Volume	=	6,301,319	
RBMC Nonmachinable Volume	=	383,474	
RBMC Oversize Volume	=	1,512	
Total RBMC Volume	=	6,686,305	
RBMC Machinable Percent	=	6,301,319 / 6,686,305	= 94.24 %
RBMC Nonmachinable Percent	=	383,474 / 6,686,305	= 5.74 %
RBMC Oversize Percent	=	1,512 / 6,686,305	= 0.02 %

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(e) *In FY 2005, the Postal Service was just beginning to implement the RDU service. I therefore relied on the RBMC figures described in part (d) above as proxies for the RDU rate category. The volume of machinable, NMO, and oversize RDU mail pieces was estimated by applying the corresponding RBMC percentages to the total FY 2005 RPW volume estimate for the RDU rate category (6,017 pieces).*

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**UPS/USPS-T21-18.** Refer to USPS-LR-L-46, pages 12-14. Explain in detail any differences there are between the mail processing steps listed for Intra-BMC parcels in USPS-LR-L-46 and the mail processing steps that take place for Alaska Bypass pieces.

**RESPONSE:**

It is my understanding that Alaska Bypass mail pieces would not incur any postal mail processing costs. Alaska Bypass mail is called "Bypass" mail because it generally bypasses all postal processing facilities. Postal Service witness Rogerson provided a description of Alaska Bypass mail in Docket No. R90-1. Please refer to the transcript of Docket No. R90-1 at Volume 5, pages 1262-1263, and pages 1675-1682.



1 CHAIRMAN OMAS: This bring us to oral cross-  
2 examination. It is my understanding that the American  
3 Postal Workers Union AFL-CIO no longer intends to  
4 cross-examine Witness Miller.

5 One other participant has requested oral  
6 cross-examination, the United Parcel Service. Is  
7 there anyone else in the hearing room who would like  
8 to cross-examine Witness Miller?

9 (No response.)

10 CHAIRMAN OMAS: There being none, Mr.  
11 McKeever for the United Parcel Service, would you  
12 please begin?

13 MR. MCKEEVER: Yes, Mr. Chairman. With the  
14 Chair's permission, I would like to add some  
15 additional written cross-examination into the record.

16 CHAIRMAN OMAS: Without objection.

17 (The documents referred to  
18 were marked for  
19 identification as Exhibit  
20 Nos. UPS/USPS-T-21-19A and  
21 UPS/USPS-T-21-20.)

22 CROSS-EXAMINATION

23 BY MR. MCKEEVER:

24 Q Mr. Miller, I have just handed you a copy of  
25 your responses to Interrogatories UPS/USPS-T-21-19A

1 and UPS/USPS-T-21-20.

2 If those questions were asked of you today,  
3 would your answers be the same as set forth in those  
4 document?

5 A Yes, they would.

6 MR. MCKEEVER: Mr. Chairman, I move that Mr.  
7 Miller's responses to UPS Interrogatories  
8 UPS/USPS-T-21-19A and T-21-20 be admitted into  
9 evidence as additional written cross-examination.

10 I do have two copies for the reporter.

11 CHAIRMAN OMAS: Without objection.

12 (The documents referred to,  
13 previously identified as  
14 Exhibit Nos. UPS/USPS-T-21-  
15 19A and UPS/USPS-T-21-20,  
16 were received in evidence.)

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**UPS/USPS-T21-19.** Refer to your response to UPS/USPS-T21-9(d).

(a) Confirm that the parcel characteristics ("the weight exceeds 35 pounds, the length exceeds 34 inches, or the sum of the length and girth exceeds 84 inches") used to classify non-machinable parcels in USPS-LR-L-47 correspond with the parcel characteristics used to assess mailers a non-machinable rate surcharge for Parcel Post listed in Domestic Mail Manual, § 101.7.2. If not confirmed, explain in detail.

(b) Confirm that the parcel characteristic ("nonrectangular") used to classify non-machinable parcels in Section H of USPS-LR-L-77 (Billing Determinants, Fiscal Year 2005), which is used as the basis for the billing determinants listed in USPS-LR-L-82, WP-PP-4 and WP-PP-5, does not accurately correspond with the parcel characteristics used to assess mailers a non-machinable rate surcharge for Parcel Post listed in Domestic Mail Manual, § 101.7.2. If not confirmed, explain in detail.

(c) Confirm that an incorrect estimate of the share of non-machinable parcels can impact the RPW Revenue Adjustment Factors for Parcel Post listed in Section H-1, page 10 of 10, USPS-LR-L-77, and derived from the Calculated Revenues listed in Section H-1, pages 7-9 of 10, USPS-LR-L-77. If not confirmed, explain in detail.

(d) Confirm that the non-machinable shares that are calculated in USPS-LR-L-47 should be used in place of the non-machinable shares in the billing determinants in Section H-1, USPS-LR-L-77. If not confirmed, explain in detail.

**RESPONSE:**

(a) Please see my revised response to UPS/USPS-T21-9(d), which indicates that USPS-LR-L-47 does not use "the sum of the length and girth exceeds 84 inches" as a criterion for classifying nonmachinable parcels. The criteria that USPS-LR-L-47 uses to classify nonmachinable parcels ("the weight exceeds 35 pounds" or "the length exceeds 34 inches") are contained in Domestic Mail Manual, § 101.7.2. It should be noted that the analysis contained in USPS-LR-L-47 does not consider all the nonmachinable parcel criteria included in Domestic Mail Manual, § 101.7.2.

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(b) Redirected to witness Kiefer (USPS-T-37).

(c) Redirected to witness Kiefer (USPS-T-37).

(d) Redirected to witness Kiefer (USPS-T-37).

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**UPS/USPS-T21-20.** Refer to your response to UPS/USPS-T21-10, the section listed "DBMC Volume Percent Estimates (USPS-LR-L-46, page 7)," and Tables 7 and 8 in attachment f.pdf in USPS-LR-L-47. If any part below is not fully confirmed, explain in detail.

(a) Confirm that the FY2005 DBMC volumes listed (265,797,297 machinable pieces, 4,080,185 non-machinable pieces, and 51,785 oversize pieces) are the total for Parcel Select (DDU parcels, DSCF parcels and DBMC parcels).

(b) Confirm that there is not a non-machinable rate surcharge for DDU parcels.

(c) Confirm that the total of 4,080,185 non-machinable Parcel Select parcels includes only 439 non-machinable (non-oversize) DU parcels in the calculation.

(d) Confirm that in Tables 7 and 8:

i. There are only 439 non-machinable (non-oversize) DDU parcels listed out of a total volume of DDU parcels of 202,924,596 million, or a non-machinable share of 0.000216%; and

ii. There are no DDU parcel volumes listed for weight increments above 35 pounds.

iii. If confirmed in whole or in part, provide (1) a corrected version of Tables 7 and 8 with corrected DDU volumes; (2) a calculation of the FY 2005 share of machinable, non-machinable and oversize DDU parcels and Parcel Select parcels; and (3) a corrected version of Tables 20 through 24 showing the cubic feet data for non-machinable DDU parcels.

(e) Confirm that using the volumes listed in Tables 7 and 8:

i. The machinable share of DSCF parcels is 96.10 (1,934,807/2,013,251);

ii. The non-machinable (non-oversize) share of DSCF parcels is 3.87% (77,984/2,013,251);

iii. The oversize share of DSCF parcels is 0.023% (460/2,013,251);

iv. The machinable share of DBMC parcels is 93.77% (60,942,727/64,991,420);

v. The non-machinable (non-oversize) share of DBMC parcels is 6.16% (4,001,762/64,991,420);

vi. The oversize share of DBMC parcels is 0.072% (46,931/64,991,420);

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vii. The combined machinable share of DBMC and DSCF parcels is 93.84% (62,877,534/67,004,671);

viii. The combined non-machinable (non-oversize) share of DBMC and DSCF parcels is 6.09% (4,079,746/67,004,671); and

ix. The combined oversize share of DBMC and DSCF parcels is 0.071% (47,391/67,004,671).

(f) Confirm that the individual DBMC and DSCF machinable, non machinable and oversize shares listed in part (e) above should be used on page 7 of USPS-LR-L-46 for DBMC and DSCF parcels.

(g) Confirm that for machinable, non-machinable and oversize shares DDU parcels on page 7 of USPS-LR-L-47 it would be best to use the combined DBMC and DSCF shares in the absence of further information regarding DDU parcels.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) i. Confirmed.

ii. Confirmed.

iii. No corrections can be made since the specified Tables accurately reflect the figures derived using the methodology employed by USPS-LR-L-47. ODIS-RPW provides two volume by weight per piece distributions for combined permit imprint DDU, DSCF, and Zone 1&2 Parcel Select.

(ORPW cannot separate these three categories because of a lack of distinct markings.) One distribution for this aggregation of DDU, DSCF,

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and Zone 1&2 mail is for machinable volume, and the other is for nonmachinable volume, as determined by the physical characteristics (dimension and weight) reported in ODIS-RPW. These weight per piece distributions are applied, respectively, to permit imprint volume "control totals" from PostalOne for DSCF mach., DSCF nonmach., Zone 1&2 mach., and Zone 1&2 nonmach.. PostalOne does not, however, provide a total permit imprint volume of DDU mach. and DDU nonmach., respectively. It only provides volume for all DDU. Because of this, the USPS-LR-47 methodology assumes that all the PostalOne DDU volume is machinable, and only applies the weight per piece distribution for machinable volumes to the DDU volume total. Therefore no permit imprint DDU nonmachinable volume appears in Table 7 of LR-47. The Postal Service will likely review this methodology in the future.

- (e) i. Confirmed.
- ii. Confirmed.
- iii. Confirmed.
- iv. Confirmed.
- v. Confirmed.
- vi. Confirmed.
- vii. Confirmed.
- viii. Confirmed.
- ix. Confirmed.

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(f) Confirmed that using the suggested figures would be preferable to using the figures currently on USPS-LR-L-46, page 7. Errata to USPS-LR-L-46 will be filed.

(g) Confirmed that using the suggested figures would be preferable to using the figures currently on USPS-LR-L-46, page 7. Errata to USPS-LR-L-46 will be filed.



1 BY MR. MCKEEVER:

2 Q Mr. Miller, the CRA adjustment factor that  
3 was originally applied to the parcel post mail  
4 processing cost model cost avoidance estimates in  
5 Library Reference L-46 was 1.277. Is that right?

6 I have a copy of that with me if you would  
7 like to look at it.

8 A The original?

9 Q The original.

10 A Filed on May 3?

11 Q Yes. Correct.

12 A I don't have a copy of that with me, so I'm  
13 not really sure exactly what the value was.

14 MR. MCKEEVER: I do have a copy. With the  
15 Chair's permission I can furnish a copy to the  
16 witness.

17 CHAIRMAN OMAS: Without objection.

18 THE WITNESS: Thank you.

19 BY MR. MCKEEVER:

20 Q Mr. Miller, I'm representing to you that  
21 that is a copy of page 1 from USPS-LR-L-46 as  
22 originally filed in the case.

23 The CRA proportional adjustment factor shown  
24 there is 1.277 up in the upper left part of the  
25 document. Is that correct?

1           A     Yes.

2           Q     That means that at that point the parcel  
3 post mail processing cost model cost avoidance  
4 estimates were increased over what was modeled by  
5 about 28 percent. Is that correct? 27.7 percent.

6           A     Did you say cost savings estimates?

7           Q     Cost avoidance estimates. Yes. Well, the  
8 model costs.

9           A     The model costs I would say were increased  
10 by that amount.

11          Q     Okay. And of course the model costs are  
12 used to determine the cost avoidance estimates?

13          A     Yes.

14          Q     The difference between the model costs for  
15 different levels of work sharing yields the cost  
16 avoidance estimates. Is that right?

17          A     Yes.

18          Q     So that results in an increase in the cost  
19 avoidance estimates as well. Is that correct?

20          A     I haven't gone through to check exactly that  
21 that's the case, but for most of them I would assume  
22 that's probably true.

23          Q     That's by the nature of the methodology,  
24 isn't it?

25          A     Yes.

1           Q     If you increase the costs of two categories  
2     by 28 percent you're going to increase the difference  
3     between them. Is that right?

4           A     Yes. The reason I'm saying this is the PRS  
5     cost estimate, for example, the cost avoidance  
6     estimate, had more than just mail processing costs in  
7     it. There are window service savings estimates.

8                     I just wanted to be clear that some of what  
9     you're saying is true.

10          Q     All right. Let's confine it to parcel post.  
11     In fact, all my questions will be confined to parcel  
12     post unless I indicate otherwise. So now are you able  
13     to agree?

14          A     I would say that is true.

15          Q     Okay. Thank you. Now, you state on page 7  
16     of your testimony in Footnote 8 that two incorrect  
17     piggyback factors were used in the version of L-46  
18     that the rate design witnesses first used. Is that  
19     correct? Page 7, Footnote 8.

20          A     I'm sorry. Did you say in the figures that  
21     were relied upon by the pricing witness?

22          Q     No. Well, to use the words in your  
23     footnote, the downstream witnesses.

24          A     Yes. The original piggyback factors were  
25     incorrect in the model that was filed on May 3.

1           Q     And the data resulting from the use of those  
2     is what was used by the other witnesses. Is that  
3     correct?

4           A     Yes.

5           Q     Okay. Now, those errors in the piggyback  
6     factors were actually corrected in what I'll call the  
7     original addendum or the addendum that was originally  
8     filed with Library Reference L-46. Is that correct?

9           A     Yes.

10          Q     Okay. And it's just that that was not done  
11     in time for the other witnesses to be able to  
12     incorporate those changes. Is that correct?

13          A     Yes.

14          Q     Okay. Now, correcting those piggyback  
15     factors changed the CRA adjustment factor, didn't it?

16                 If you'd like, I can hand you a copy of the  
17     page from the addendum that contains the --

18          A     I don't have it with me, but I would imagine  
19     it probably changed to some extent.

20                 MR. MCKEEVER: Well, just to make sure we're  
21     all on the same page and all comfortable, with the  
22     Chair's permission I would like to provide the witness  
23     with a copy of that page from the addendum of the  
24     originally filed L-46 which shows the CRA multiplier  
25     used there.

1 CHAIRMAN OMAS: Yes. Thank you.

2 MR. MCKEEVER: Mr. Chairman, I do have  
3 copies for the bench if the bench would prefer, so  
4 with your permission I will provide to the bench both  
5 the original document I gave Mr. Miller a few minutes  
6 ago with the 1.277 cost adjustment factor, as well as  
7 the one I just handed him with the cost adjustment,  
8 the CRA adjustment factor from the addendum.

9 CHAIRMAN OMAS: Yes. Thank you.

10 BY MR. MCKEEVER:

11 Q Mr. Miller, if you compare those two pages  
12 you can see that the CRA proportional adjustment  
13 factor in the box in the upper left-hand portion of  
14 the page went from the 1.277 which we've just  
15 discussed to 1.325 by changing those two piggyback  
16 factors. Is that correct?

17 A Yes.

18 Q That's an increase of about five percentage  
19 points in the multiplier. Is that correct? 1.277 to  
20 1.325.

21 A I haven't performed that calculation, but  
22 subject to check I would accept your --

23 Q Well, that one is pretty easy, isn't it?  
24 1.32 minus 1.27 is five percent points. The numbers  
25 speak for themselves. That's okay.

1           There are a number of other factors that  
2     have changed to either increase or reduce the CRA  
3     multiplier, aren't there?

4           A     I'm sorry. Could you repeat that question?

5           Q     Sure. There are a number of other factors,  
6     other data, for example, that goes into the  
7     calculation of that factor that if changed can either  
8     increase or reduce the CRA multiplier. Isn't that  
9     correct?

10          A     Yes.

11          Q     And in fact a revised Library Reference L-46  
12     was just filed on August 2 which made two other  
13     changes that affected the CRA multiplier, correct?

14          A     Yes.

15          Q     After those changes, the CRA adjustment  
16     factor declines to 1.194. Is that correct?

17          A     Yes.

18          Q     So using the 1.194 CRA multiplier increases  
19     the mail processing cost model cost avoidance  
20     estimates for parcel post by about 20 percent over  
21     what the cost model estimates. Is that correct?

22          A     For the cost avoidance estimates we  
23     discussed earlier, yes.

24          Q     Yes, for parcel post.

25          A     Yes.

1           Q     The CRA adjustment factor can actually be  
2     less than one, can't it? I'm not asking you if it is,  
3     but it can be, can't it?

4           A     Yes.

5           Q     And in fact there is one CRA adjustment  
6     factor that the Postal Service is using for media mail  
7     that is less than one. Isn't that correct?

8           A     Yes.

9           Q     That one is .937?

10          A     Yes.

11          Q     Okay. In that case the model cost avoidance  
12     estimates are reduced. Is that correct?

13          A     Yes.

14          Q     Just bottom line then, the cost adjustment  
15     factor went from 1.277 to 1.325 to 1.194, which  
16     represents a difference of 13 percentage points from  
17     the low of 1.194 to the high of 1.325, correct?

18          A     It's correct that the facts as you described  
19     were that the progression of when the changes were  
20     made, what they ended up being.

21          Q     Okay. All right. Now if you could turn to  
22     your response to Interrogatory UPS/USPS-T-21-2,  
23     please? Do you have that?

24          A     Yes.

25          Q     All right. Now, that interrogatory

1 indicates or suggests that the parcel sort  
2 productivity at the destination delivery unit, the  
3 DDU, assumed in the Library Reference L-46 cost models  
4 yields a test year cost of 10.7 cents per piece for  
5 parcel post sortation at the destination delivery  
6 unit. Is that correct?

7 A Yes.

8 Q You confirmed that, correct?

9 A Yes.

10 Q And the interrogatory also indicates that  
11 the test year parcel post cost in the non-mods manual  
12 parcel sort, non-mods MANP -- that's manual parcel  
13 sort, right? Is that correct?

14 A Yes.

15 Q Okay. The interrogatory points out that the  
16 test year parcel post cost in the non-mods manual  
17 parcel sort cost pool is a little over 26 cents per  
18 piece. Is that correct?

19 A Yes.

20 Q And you indicate in your response to subpart  
21 E of the interrogatory that you are unable to explain  
22 the difference between the 10.7 cents per piece DDU  
23 parcel sort cost and the 26 cents per piece derived  
24 from the non-mods manual parcel sort cost pool. Is  
25 that correct?



1           A     Yes.

2           Q     You go on to state in your answer to E, and  
3 I'm quoting here, "To the extent that the productivity  
4 figure that has been relied upon for several cases now  
5 is incorrect or does not cover all the tasks  
6 associated with this cost pool, the impact on the rate  
7 category cost estimates should be minimized due to the  
8 fact that a proportional CRA adjustment factor has  
9 been applied." Do you see that?

10          A     Yes.

11          Q     Are you saying there that the CRA  
12 multiplier, when that's applied to the model cost  
13 savings estimates or cost estimates, increases the  
14 mail processing cost models estimate of 10.7 cents per  
15 piece to a higher figure by multiplying the 10.7 by  
16 one of those CRA adjustment factors we just discussed?  
17 Is that what you're saying there?

18          A     I was referring to a general reason why we  
19 applied CRA adjustment factors.

20          Q     Yes, and that reason is sometimes to factor  
21 up the models cost estimates, is that correct, to make  
22 them agree with the CRAs?

23          A     Just based on the fact that all the inputs  
24 we have are estimates.

25          Q     Right.

1           A     And in the event that they don't match what  
2 actually is happening, we apply the adjustment factor.

3           Q     Right. Okay. But when you say in your  
4 response that the impact of the difference between the  
5 10.7 cents and the 26 cents is minimized because a  
6 proportional CRA adjustment factor has been applied,  
7 what you're really saying there is just what we said,  
8 right, that the CRA adjustment factor will increase  
9 that 10.7 cents from the model by multiplying it by  
10 either 1.194, one of the factors we discussed, or  
11 1.325. That's what you're saying there, right?

12          A     It's not applied explicitly to the 10.7  
13 cents, but in general terms I agree with what you're  
14 saying.

15          Q     Yes. It's applied to data that has an  
16 impact on that?

17          A     Yes.

18          Q     Okay. Now, if I use the highest CRA  
19 multiplier of those that we've discussed today, the  
20 1.325, and apply that to the 10.7 cents per piece  
21 model cost, and I'll ask you to trust my math here.  
22 It's basic math, but you do need a calculator, I  
23 guess. 10.7 times 1.325 comes out to about 14.2 cents  
24 per piece. I'll ask you to accept that.

25                So I guess what you're saying in your

1 response to E is that 14.2 cents is closer to the 26  
2 cents than the 10.7 cents is obviously. Is that  
3 correct?

4 A The adjustment factor is the amount applied  
5 to costs at the cost pool level, so it's the total  
6 cost. I've really never done an analysis about  
7 whether those factors, whether it makes sense to apply  
8 them to specific cost pools.

9 Q Okay. They're not applied --

10 A I can't really agree with what you're  
11 saying.

12 Q Pardon me?

13 A I can't really agree with what you're saying  
14 because I've never done such an analysis.

15 Q All right. Let me try just a couple more  
16 questions this other way then.

17 While they're not applied directly to the  
18 cost pools, they are applied to a number that includes  
19 a combination of the different cost pool numbers. Is  
20 that correct?

21 A That's correct.

22 Q Okay. So the number to which the adjustment  
23 factors are applied would include, among other things,  
24 the 10.7 cents as well as other cost model numbers.  
25 Is that correct?

1           A     That's correct.

2           MR. MCKEEVER:   Okay.   That's all I have, Mr.  
3   Chairman.

4           CHAIRMAN OMAS:   Thank you, Mr. McKeever.

5           Is there any follow-up cross-examination of  
6   Witness Miller?

7           (No response.)

8           CHAIRMAN OMAS:   Are there any questions from  
9   the bench?   Commissioner Goldway?

10          COMMISSIONER GOLDWAY:   I'm not sure you're  
11   the correct person to ask this question of, but in the  
12   documents that show the cost adjustments one of the  
13   reasons for cost adjustments for parcels is an  
14   increase in window service cost of 50 percent.   I'm  
15   wondering if you can tell me anything about that?

16          THE WITNESS:   I actually was asked  
17   specifically about that in a couple interrogatories,  
18   but the last one was UPS/USPS-T-21-12.

19          As far as a savings estimate, I stated that  
20   I did not know the reasons, and then I was also asked  
21   about the actual cost segment costs.   That was  
22   redirected to Witness Milanovic, so I believe he would  
23   probably be the best person to answer that question.

24          COMMISSIONER GOLDWAY:   Okay.   Thank you.

25          MR. MCKEEVER:   Madam Commissioner, just for

1 the information of the bench, that response by that  
2 witness mentioned by Mr. Miller was in fact included  
3 in the record as additional written cross-examination  
4 when that witness appeared on the stand yesterday.

5 COMMISSIONER GOLDWAY: Okay. Thank you.

6 CHAIRMAN OMAS: Mr. Weidner, would you like  
7 some time with your witness?

8 MR. WEIDNER: Three minutes, sir.

9 CHAIRMAN OMAS: Fine. We'll recess for  
10 about five.

11 (Whereupon, a short recess was taken.)

12 CHAIRMAN OMAS: Mr. Weidner?

13 MR. WEIDNER: Mr. Chairman, the Postal  
14 Service has no redirect.

15 CHAIRMAN OMAS: Thank you, Mr. Weidner.

16 Mr. Miller, that completes your testimony  
17 here today. We again do appreciate your testimony  
18 here today and your contribution to our record. Thank  
19 you very much. You are now excused.

20 THE WITNESS: Thank you.

21 (Witness excused.)

22 CHAIRMAN OMAS: Now I think we shall go to  
23 Mr. Hollies. Mr. Hollies, would you introduce your  
24 witness?

25 MR. HOLLIES: The Postal Service calls

1 Frederick J. Hintenach III to the stand.

2 CHAIRMAN OMAS: Mr. Hintenach, would you  
3 raise your right hand?

4 Whereupon,

5 FREDERICK J. HINTENACH III

6 having been duly sworn, was called as a  
7 witness and was examined and testified as follows:

8 CHAIRMAN OMAS: Please be seated.

9 (The document referred to was  
10 marked for identification as  
11 Exhibit No. USPS-T-43.)

12 DIRECT EXAMINATION

13 BY MR. HOLLIES:

14 Q Mr. Hintenach, I believe you have in front  
15 of you two copies of a document identified as Direct  
16 Testimony of Frederick J. Hintenach III on Behalf of  
17 the United States Postal Service designated USPS-T-43.  
18 Is that correct?

19 A That is correct.

20 Q And was that document prepared by you or  
21 under your supervision?

22 A It was.

23 Q And does that constitute your written direct  
24 testimony in this case?

25 A It does.

1           Q     And were you to testify orally today would  
2     your testimony be the same?

3           A     Yes.

4           Q     Did you have any library references  
5     associated with that testimony?

6           A     No, I did not.

7           MR. HOLLIES:   With that, Mr. Chairman, the  
8     Postal Service moves for the admission into the record  
9     of the testimony of Frederick J. Hintenach III.

10          CHAIRMAN OMAS:   Is there any objection?

11          (No response.)

12          CHAIRMAN OMAS:   Hearing none, I will direct  
13     counsel to provide the reporter with two copies of the  
14     corrected direct testimony of Frederick J. Hintenach  
15     III.

16          That testimony is received into evidence.  
17     However, as is our practice, it will not be  
18     transcribed.

19                               (The document referred to,  
20                               previously identified as  
21                               Exhibit No. USPS-T-43, was  
22                               received in evidence.)

23          CHAIRMAN OMAS:   There was no designated  
24     written cross-examination with this witness.

25          Does any participant have written cross-

1 examination for Witness Hintenach?

2 (No response.)

3 CHAIRMAN OMAS: There being none, this  
4 brings us to oral cross-examination. One participant  
5 has requested oral cross, the Office of the Consumer  
6 Advocate.

7 Ms. Dreifuss, you may begin.

8 MS. DREIFUSS: Thank you, Mr. Chairman.

9 CROSS-EXAMINATION

10 BY MS. DREIFUSS:

11 Q I'm Shelley Dreifuss from the Office of the  
12 Consumer Advocate. Good morning, Mr. Hintenach.

13 A Good morning.

14 Q In reading your testimony, I see that you've  
15 got a pretty extensive background working for the  
16 Postal Service. It looks like you started in 1965,  
17 and you've been working there I guess about 40 years?

18 A Yes. The early days were part-time, and  
19 then I took a break for school, the military, back to  
20 school and then back with the Postal Service.

21 Q In 1990, you became the manager of Retail  
22 Operations. I see that in your autobiographical  
23 sketch. Is that correct?

24 A That is correct.

25 Q What kind of duties did you perform as the



1 manager of Retail Operations?

2 A That was the responsibility again for the  
3 day-to-day operating policies and procedures of the  
4 retail operations of the company, so it was really  
5 making sure everybody had everything they needed to  
6 conduct business at the post offices, the stations and  
7 branches.

8 Q Since that time you say you've held various  
9 positions related to post office operations for 34,000  
10 post offices, stations and branches.

11 Did you actually do any direct supervision  
12 of sales associates or clerks at these offices?

13 A No, not in those days but maybe back 20  
14 years ago I did some various acting assignments. No,  
15 not recently.

16 Q What were the nature of those positions?  
17 Actually, I may be reading this wrong.

18 Was there a period of time when you were no  
19 longer the manager of Retail Operations and not yet  
20 the manager of Customer Service Operations, some  
21 interval between those two?

22 A It sort of evolved, and there were several  
23 different titles. I moved in and out of Operations  
24 into Marketing, back into Operations. In essence, the  
25 functionality of the position has stayed pretty much

1 the same.

2 It has evolved into greater responsibility  
3 from the standpoint that I have a subordinate manager  
4 for Retail Operations right now, and I also have  
5 responsibility for computer forwarding and all of what  
6 we call the Function 4 activity of the customer  
7 service activity, which is the distribution at our  
8 stations and branches, the forwarding of mail, the  
9 processing of mail in our stations and branches.

10 Q I see. I think your current position is you  
11 are the manager of Customer Service Operations?

12 A That is correct.

13 Q And you state further that that position  
14 entails and you're responsible for all operational  
15 programs and policies that impact the day-to-day  
16 operations of our post offices from counter operations  
17 to back office operations. That's a pretty good  
18 summary of what you do?

19 A That's correct. To clarify the Retail  
20 Operations side, that really was basically the counter  
21 operations at that point in time, and now I've got the  
22 whole operation.

23 Q Thank you. Could you turn to page 3 of your  
24 testimony, please?

25 A Sure. Okay.

1           Q     In the paragraph that's second from the  
2     bottom, it begins at line 16. "POS ONE also provides  
3     more detailed information on transactions by office,  
4     employee and time of day," and I'm going to focus on  
5     this next phrase, "enabling us to know customer  
6     traffic and needs at each location and the resources  
7     necessary to support those needs."

8                     I wanted to ask you if because of this  
9     greater capability that POS provides as contrasted to  
10    the older days when you didn't have POS -- you were  
11    using IRTs or didn't even have those -- has the Postal  
12    Service, to your knowledge, been able to reduce the  
13    waiting time at counters because of this knowledge  
14    you've obtained from POS?

15           A     The answer is yes, and let me just qualify  
16    that by the fact that we've really started to look at  
17    our wait time in line through our mystery shopper  
18    program where we actually send a vendor in who looks  
19    at waiting time in line. That has improved. It'll go  
20    up and will slip and we'll improve, but our goal is to  
21    really reduce waiting time in line.

22                     This tool has been a great help, meaning  
23    POS, in identifying where you might have a waiting  
24    time in line, and you can look at the activity to see  
25    how it was related to what was going on, if it was an

1 isolated incident or if there's some sort of problem  
2 that you want to address the system more systematic in  
3 that office. It's been a great tool from that  
4 standpoint to improve wait time in line.

5 Q Will mystery shoppers be sent to every one  
6 of those 34,000 facilities at some point during a  
7 year?

8 A No. We only go to I think -- the exact  
9 number I don't have off the tip of my tongue, but it's  
10 approximately 8,000 offices we go in and out of. It's  
11 where we have large business, large traffic, and it's  
12 also where we have POS so we can relate the two.

13 Q I see. What about the 26,000 -- if my math  
14 is right -- facilities that don't get a visit from a  
15 mystery shopper? How would you or those offices be  
16 monitoring wait time?

17 A Actually, those offices typically are very,  
18 very small offices and, quite frankly, usually offices  
19 where we don't have a lot of issues with customers  
20 complaining about wait time in line or concerned about  
21 wait time in line.

22 Q I see. So you're trying to target the  
23 mystery shoppers at the places where you think there  
24 might be a wait time problem?

25 A Yes, and our goal is obviously in our larger

1 metropolitan areas where we have a lot of traffic, a  
2 lot of activity.

3 Our goal is to obviously have very high  
4 customer satisfaction and try to avoid wait time in  
5 line, just like any other retailer or business. It's  
6 the one thing that really frustrates customers. We  
7 want to make sure we address it to the best of our  
8 ability.

9 Q Can you recall? I know you won't have these  
10 cities off the top of your head, but can you recall  
11 for a recent period -- let's say the last year or  
12 two -- how wait times at those 8,000 facilities would  
13 have compared to wait time maybe five years earlier?

14 A It has improved. I'm just trying to think  
15 when we started our program. It has improved. I  
16 think the average wait time for those 8,000 offices is  
17 somewhere in the vicinity of three minutes. Of  
18 course, we have some that are less and some that are  
19 more. Of course, we're focusing on those that are  
20 more.

21 Q How would that have compared to wait time of  
22 several years back before you started your program?

23 A Here's the problem. I don't know how I'd  
24 measure that. That's my challenge is there was no  
25 measurement then. That's the value of this.

1 Q Okay.

2 A It really helps us do our job much more  
3 efficiently and better.

4 Q A little further down in that paragraph you  
5 note that the volume of single piece first class mail  
6 decreases, or as it decreases the simple window  
7 transactions that were associated with single piece  
8 first class mail are being replaced with more complex  
9 and more time consuming transactions.

10 I wondered what those relatively simple  
11 single piece first class mail transactions would tend  
12 to be. What do they consist of, and in what way are  
13 they simpler than some of the others that are starting  
14 to dominate today?

15 A It's basically stamp sales, whether it be an  
16 individual stamp or a booklet of stamps. We have  
17 alternatives for customers to purchase, and also  
18 there's been a lot of shift to the internet as well on  
19 bill payment and those types of things, so it's  
20 basically stamp sales.

21 Q Okay. Thank you. I wanted to ask you also  
22 because of your position and your extensive background  
23 in setting policies for Retail Operations. I wanted  
24 to talk to you about the sale of insurance at a retail  
25 window and the way the claims process works that

1 begins at a retail window.

2 Does the Postal Service tend to provide  
3 information to customers when they come up to the  
4 window to buy insurance? Does the Postal Service  
5 offer information?

6 A Could you just clarify that a little bit?  
7 What kind of information are you looking for?

8 Q Maybe written information. Let me tell you  
9 the kind of information that I think I might want if I  
10 were about to purchase insurance.

11 I might want to know what kind of records  
12 I'd have to keep so that later I could make a claim if  
13 I needed to. I'd like to have some idea maybe about  
14 the claims process -- if I were to file a claim, what  
15 steps would be taken -- and also how long I might  
16 expect to wait before my claim is finally resolved.

17 Do you provide any of that information to  
18 your customers when they approach a clerk?

19 A If you would ask for that information we  
20 would certainly have them inform you of the process  
21 and what's necessary and what you have to keep as far  
22 as receipts and that type of thing, but I think just  
23 like any person or retailer company, even our  
24 competitors, probably do not offer here's what you do  
25 if we lose or damage your package. It's just not

1 something that you would typically offer.

2 If the customer would say hey, I'd really  
3 like to know if I lose this or if you lose it or it  
4 gets damaged what's the process, we would gladly  
5 explain that to them.

6 Q Again, I'm putting myself in the shoes of  
7 somebody who might be buying insurance. If I were  
8 going to buy insurance I'd really want to know the  
9 prospects of my being indemnified in case there's a  
10 problem if my item is lost or damaged.

11 Don't you imagine that customers would want  
12 to have that information before they make the choice  
13 whether to proceed with a purchase or not?

14 A I don't have any data that would tell me  
15 that. I know that myself and I think a lot of people,  
16 unless they had an incident, would probably not be  
17 concerned about it. Usually in fact we have very  
18 minimal loss and damage. That's when it occurs.

19 I don't think of asking that myself  
20 personally, but I don't have any data that tells me  
21 that that is something a customer would be extremely  
22 interested in.

23 Q Right. The reason for the insurance  
24 purchase I suppose is that the purchaser is looking to  
25 be indemnified in case there's a problem.



1           A     Peace of mind if something happens.

2     Oftentimes we will actually offer that -- in fact we  
3     do offer it -- on parcels so that somebody does have  
4     peace of mind if it is lost or damaged.

5           You know, again if someone would say hey,  
6     but what's the process for this, then we would explain  
7     it.

8           Q     You would agree that the essential reason  
9     for buying insurance is with a hope that if a problem  
10    arises that there would be indemnification?

11          A     Sure, just like household insurance or car  
12    insurance or anything else.    Sure.

13          Q     Does the Postal Service pay all insurance  
14    claims that are submitted to it?   Do you know?   I know  
15    you're not necessarily working in that function, but  
16    do you know if all claims are paid?

17          A     I don't know the answer to that because  
18    that's not in my bailiwick.

19          Q     I believe customers may sometimes have a  
20    question about whether a package has been prepared  
21    properly for mailing so that the item inside would  
22    withstand damage.

23          A     Uh-huh.

24          Q     How could a customer learn whether they had  
25    packaged an item properly so that in the event that

1       there is damage they could be indemnified for the  
2       loss? How could they get that information from the  
3       Postal Service?

4             A       Well, there's package tips. Boy, I can't  
5       remember the exact publication, but I can find that  
6       out for you. There's package tips.

7             Also one of the things we actually monitor  
8       our employees on with mystery shoppers is if you bring  
9       a parcel up they're supposed to ask if there's  
10      anything hazardous, liquid or fragile in there. One  
11      of the intents of that is really to find out are you  
12      shipping something that you believe is fragile.

13            Of course, it's protected by the rights of  
14      it's sealed as far as a first class or a Priority Mail  
15      parcel goes, but our employees really try to look to  
16      see if the package is sufficient. Sometimes they'll  
17      shake it. Sometimes they'll look at the package and  
18      see if there's any damage or dents, see if something  
19      is loose in there. We instruct them on how to do  
20      that.

21            Oftentimes they'll say, you know, if you've  
22      got something here maybe you need to put some bubble  
23      wrap around it or something and have some discussion.  
24      We want that parcel to get there safely.

25            I mean, that's the last thing we want to do

1 is have a carrier walk up to the door and hand  
2 somebody a parcel and it's damaged or you can hear  
3 something broken in there. We don't want that.

4 I mean, that's our goal is to try and make  
5 sure the customer does have the package packaged  
6 properly. We have products there that they can use to  
7 package it if need be.

8 Q Do you think if a customer had some concerns  
9 about that, about a fragile item and whether it had  
10 been packaged properly, and brought that package to a  
11 clerk not sealed yet --

12 A Right.

13 Q -- and had the clerk look inside, do you  
14 think this will withstand the trip, would a clerk  
15 offer an opinion on that do you think?

16 A I'm sure they would.

17 Q Do you know if the customer could rely on  
18 that opinion so that even if they follow the clerk's  
19 advice, went ahead and mailed it and it ended up being  
20 damaged, do you know if that would count at all in the  
21 claims process?

22 A Would it count at all? I don't see that  
23 that would be part of the claim. It's advice they're  
24 offering.

25 I'm not trying to be smart about this, but,

1           A     I mean, a customer could bring something in  
2     that we wouldn't catch or find out, and it could be  
3     loose in there or not packed properly, but it appears  
4     to be packed properly.

5                     I don't think we can make an assessment  
6     unless there's some reason to make that assessment  
7     that something is loose, I can hear something,  
8     something is moving around in there.

9                     It could be that a customer put something in  
10    a package that is not packed properly and it moves  
11    because we can't open the package to find out if it's  
12    packed properly.

13          Q     Right. If that were to happen, do you know  
14    if that might be a basis for denying the claim later  
15    on if the item arrives broken?

16          A     I do not.

17          Q     Okay. Let's assume as a hypothetical that  
18    there is a Postal Service regulation that will deny  
19    indemnification on the grounds that an item had not  
20    been properly packaged.

21                    I'm wondering how a Postal Service retail  
22    customer would be able to send that package with the  
23    confidence that eventually a claim will be paid later  
24    on in case the item arrives damaged. How could the  
25    customer ever know with a high probability that they

1 will be indemnified in case the contents are damaged  
2 or broken?

3 MR. HOLLIES: The Postal Service would like  
4 to object here. The witness has indicated that he  
5 does not know about the claims process, and counsel  
6 for OCA has therefore asked a hypothetical question  
7 which assumes a regulation. Now she's asking about  
8 what he doesn't know about.

9 On that basis, the Postal Service does  
10 object to this line.

11 MS. DREIFUSS: Mr. Chairman, I actually am  
12 not going to ask Mr. Hintenach to comment on the  
13 regulation or offer his opinion or anything else about  
14 the regulation.

15 I actually am just discussing a factual  
16 situation about whether an item might arrive damaged  
17 and how a customer would know beforehand whether he or  
18 she had packed it sufficiently so as to avoid damage.

19 THE WITNESS: I'm not trying to not answer  
20 your question, Shelley. Where I'm confused is the  
21 fact if somebody brings a parcel in that's totally  
22 wrapped, totally packed and doesn't appear to be  
23 anything shifting, noise, the routine things we would  
24 do, and I would assume this is the same thing if they  
25 took it to another mailing service. If nothing is

1 obvious, there's not much you can do to say it isn't  
2 packaged correctly.

3 Now, if the customer asks gee, I'm not sure  
4 whether I've got this packaged properly, although we  
5 try to lead them to that with is it liquid, fragile or  
6 hazardous. We try to lead them to that to find out.  
7 The person says no, there's nothing in there fragile.  
8 They could have something actually fragile in there  
9 and not packed properly.

10 BY MS. DREIFUSS:

11 Q Let me go back again to something we started  
12 out with just a couple minutes ago, and that is the  
13 Postal Service is not informing the customer unless  
14 asked about the various reasons a claim might be  
15 denied later. Is that correct?

16 A I guess I can't imagine anybody would say  
17 this is why a claim won't be honored. I mean, I think  
18 there's some accountability and responsibility We can  
19 lead with the questions.

20 We can lead to try to find out what's there,  
21 but if the customer doesn't provide some feedback it's  
22 hard to say what the end result will be, I guess.  
23 That's the only way I can answer it.

24 Q Do you think that there may be value in the  
25 Postal Service actually giving some kind of simple

1 printed statement to customers who are thinking about  
2 purchasing insurance about the things that they should  
3 be mindful of before they go ahead, before they  
4 actually enter that package? Has it been properly  
5 packaged would be one thing that comes to mind.

6 A You know, on that I guess we have not had  
7 tremendous loss or damage. Is there a need to go to  
8 that extreme, you know, to hand everyone who comes up  
9 something on their parcel?

10 Now, if someone would say hey, listen, I'm  
11 not sure whether I know this is packaged properly or  
12 not, I think we have -- what is it -- Notice 2122. We  
13 can provide them with packaging tips, and we can  
14 provide them on our insurance process and our claims  
15 process and times you need to take the claim and how  
16 much you have depending on the type of service you  
17 use.

18 Personally, I think it would be a tremendous  
19 cost to do something like that for a relatively minor  
20 occurrence. It's not like we're not answering the  
21 customer's questions if they ask it. We're trying to  
22 get them by our customers to lead them to find out if  
23 there is something in there that could be damaged so  
24 that we do ask and try to make sure it's packaged  
25 properly.

1           It's possible that they could bring in  
2 something fragile and say okay, fine. I'm going to  
3 just send it the way it is. They don't tell us.

4           COMMISSIONER GOLDWAY: If I can intersperse,  
5 it's my understanding that in your competitors that  
6 they won't offer insurance unless they pack it. They  
7 make it quite clear that there's a standard between  
8 what's insured and what isn't insured, and customers  
9 who use your service aren't aware of the distinction  
10 between the two.

11          THE WITNESS: I can't totally answer on the  
12 competition, but my understanding is that the  
13 insurance is offered if they accept a parcel, minimum  
14 insurance, and that's one of the reasons we ask our  
15 customers about insurance because they're used to the  
16 competition having insurance built into their rates.

17          I'm not an expert on that. I mean, that's  
18 my understanding. You'd have to get clarification, or  
19 I'd have to find clarification on that.

20          MS. DREIFUSS: I appreciate Commissioner's  
21 Goldway's additional information she was able to bring  
22 to bear which I didn't have.

23          THE WITNESS: The other reason I would like  
24 to offer that is one of the things is we've had  
25 customers say I thought you had insurance in your



1 postage as does some of the competition, and that's  
2 why we offer insurance to our customers when they  
3 bring a parcel in because we want to make sure they  
4 understand that it is not automatic.

5 COMMISSIONER GOLDWAY: They may have  
6 insurance for if it's not delivered that you get your  
7 money back, which you don't have unless it's insured  
8 in their rates, but in terms of the contents inside  
9 and indemnification -- at least that's been my  
10 experience that you need to have them pack it.

11 Neither you nor the competition tells you  
12 clearly that you need receipts for the value of it to  
13 get full indemnification, and that's something that I  
14 think is a real failure on both your part and the  
15 other competitors, for the record.

16 MS. DREIFUSS: Again, I thank Commissioner  
17 Goldway for bringing in the information that I didn't  
18 have at hand.

19 BY MS. DREIFUSS:

20 Q I'm going to switch now to the  
21 responsibilities of a clerk at the window for setting  
22 the claims process in motion.

23 I believe there's a Form 1000 that would  
24 normally be filled out in part by the customer and in  
25 part by the clerk when a claim is going to be

1 submitted on insurance. Is that correct?

2 A That is correct.

3 Q And I think it's Part B that the clerk has  
4 to fill out. Does that sound right to you?

5 A Yes. I think the customer fills out the top  
6 of the form, and the clerk verifies and fills out the  
7 bottom of the form.

8 Q Do you know if a customer finds that an item  
9 has been damaged, the contents of a package have been  
10 damaged, but the exterior packaging has no evidence of  
11 damage do you know whether a clerk is supposed to make  
12 a determination whether the damage to the contents  
13 could have occurred while the Postal Service was  
14 shipping the item?

15 A Could I ask you to repeat the question,  
16 please?

17 Q Sure. Let me just tell you. I may have it  
18 with me, but just accept this subject to check if you  
19 don't mind, or accept it as a hypothetical.

20 A Okay.

21 Q On the internet I was reading about I think  
22 it was frequently asked questions about submitting an  
23 insurance claim, and what I read was if the contents  
24 of a package have arrived damaged, but the exterior  
25 damage, the wrapper -- I think that's the word used --

1 has not been damaged, do you know if the clerk is  
2 supposed to make an assessment at that time in filling  
3 out the Form 1000 whether despite the fact that the  
4 outer wrapper showed no damage of wrapper that the  
5 contents might have been damaged while in the  
6 possession of the Postal Service? Does that ring a  
7 bell for you?

8 A Yes.

9 Q So in such a situation is it your  
10 understanding that a clerk should enter that  
11 information on the Form 1000?

12 A They should enter that information and any  
13 information that would help settle the claim.

14 Q Is there any special training for clerks  
15 that would allow them to make that determination  
16 easily; how contents could arrive damaged, but  
17 exterior wrapper was not?

18 A We have a couple of training modules dealing  
19 with insurance and claims. I'd have to go back and  
20 look specifically at what that says.

21 Q Okay. Thank you. Whose responsibility is  
22 it to send the Form 1000 to the St. Louis Accounting  
23 Center, the clerk's or the customer's?

24 A It's the clerk's.

25 Q Is there a special envelope that's used for

1       that purpose or just whatever's at hand at the office?

2           A     It is supposed to be sent every night and  
3       most likely probably in a penalty envelope, which is  
4       first class or penalty indicia, but sent first class  
5       to St. Louis for expedited processing.

6           Q     Does the clerk have to find the address, the  
7       correct address to send the form to in St. Louis?

8           A     Well, a lot of them would probably have  
9       preprinted labels already, but I can't say that would  
10      be 100 percent because it probably isn't when you're  
11      dealing with 34,000 locations.

12          Q     Are you aware of any instances in which  
13      claims forms that were sent out by post offices ended  
14      up in a mail recovery center?

15          A     I am personally not aware, but I am sure  
16      that could happen with as much mail as goes through  
17      our system.

18          Q     And I guess if that claims form ends up in a  
19      mail recovery center at the very least the processing  
20      of the claim will be delayed. Would that be correct?

21          A     That would be correct.

22          Q     Are there any written policies on how long a  
23      clerk may hold a claim form before sending it out to  
24      St. Louis?

25          A     The intent is that they put it in as quickly

1 as possible that evening unless they had to gather  
2 some additional information or something.

3 I guess it's possible that they could have  
4 forgot to ask a customer and had to contact the  
5 customer again. Maybe the customer had to bring in  
6 the proof of loss and they had held onto it. I mean  
7 proof of value. Proof of value.

8 I guess there are cases -- I'm sure there  
9 are cases -- where it could get delayed, but that's  
10 not because we don't want to expedite it.

11 Q How would a clerk know that the policy is to  
12 send it out that night unless exceptional  
13 circumstances are involved?

14 A I think our instructions say that. I'd have  
15 to go verify it, but we certainly have instructed  
16 them. You don't want it sitting around. You want it  
17 moved.

18 Q Right. Are supervisors of clerks  
19 responsible for making sure that they do perform this  
20 duty to send out claims forms on the same evening that  
21 they've been submitted by a customer?

22 A Well, they're certainly responsible for the  
23 regulations. I mean, I think you get a standard  
24 process in place where people understand that that's  
25 the standard procedure to get the information, get it

1 in the envelope and get it out to St. Louis.

2 Ultimately the postmaster or facility head  
3 is responsible to make sure that this happens. I  
4 would think if you had a clerk who's done it every  
5 night and done it for three years, five years, three  
6 months, that you're probably pretty confident that  
7 that's going to happen.

8 You would monitor that situation if you saw  
9 a stack of insurance claims or several insurance  
10 claims lying around. You'd probably say why is this  
11 happening because they know they're supposed to  
12 expedite it. We also know that that's one of our  
13 customer concerns, so we really focus on that.

14 Q Is there a policy that you've established or  
15 that exists today that requires clerks to log in every  
16 insurance claim that has been submitted during the  
17 day?

18 A I don't know the answer to that. Not that  
19 I'm aware of. I just don't know. I mean, there could  
20 be. I'd have to go research it, but it could be.

21 Q Okay. I'm going to switch to another topic,  
22 to the topic of a change that apparently is being  
23 contemplated by the Postal Service. The Commission  
24 and parties were notified about this change in this  
25 case.

1                   It concerns a change in the way bound  
2     printed matter will be entered into the Postal Service  
3     in the future. There's another witness in this  
4     proceeding, Witness Yeh -- I don't know how to  
5     pronounce her name -- who actually made mention of it.

6                   Are you familiar with that change that's  
7     being contemplated that bound printed matter will no  
8     longer be accepted at a retail window?

9           A     I've only heard about it. I think again  
10    it's products and services that are offered, how it's  
11    offered, how it's entered into the system. If a  
12    decision is made that we're going to do something at  
13    the counter or we're not going to do something at the  
14    counter I'm usually advised of that and we adjust  
15    accordingly.

16                  I don't know how the outcome is going to be.  
17    All I know today is that we accept bound printed  
18    matter. Again, if somebody puts a new service, a new  
19    international service, bound printed matter, bulk  
20    mail, whatever it is, there will be a decision made on  
21    how that's going to be entered into the system.

22                  It could be a counter or could not be a  
23    counter. If it's a counter then we certainly work to  
24    educate and inform our people.

25           Q     All right. At the present time, bound

1 printed matter can be entered at a retail window, can  
2 it not?

3 A That's correct.

4 Q And so the decision not to allow it to be  
5 entered at the retail window it sounds to me like you  
6 were saying was a level above yours or many levels  
7 above yours.

8 A It would be the products and services  
9 people. I'm not sure who made the recommendation, who  
10 made the decision, but it's certainly something -- I  
11 don't get into the products and services end of the  
12 business.

13 Q Right. It sounds like something you're not  
14 terribly familiar with, but I'll ask you this anyway.

15 A Okay.

16 Q Have you been informed the reason that the  
17 Postal Service wants to make this change?

18 A I have not.

19 Q In your many years of experience, have you  
20 heard about any special difficulties experienced in  
21 accepting bound printed matter at a retail window?

22 A I'm not aware. The only thing I'm aware of  
23 is I don't think we have very much volume at the  
24 window. I think it's very, very minuscule. It's not  
25 something that a customer would normally come in and



1 say gee, I'd like to send this bound printed matter.

2 Q All right. The determination of the postage  
3 that has to be paid on a bound printed matter mail  
4 piece, a single piece, that would be a similar process  
5 to what happens with Priority Mail. Does that sound  
6 right to you?

7 A Boy, I'm not sure I can answer that question  
8 only because I don't think I've ever watched a piece  
9 of bound printed matter be accepted at the window.

10 Q Do you happen to recall that bound printed  
11 matter is zoned and weight rated? Does that ring a  
12 bell for you?

13 A No, but I guess it would make sense.

14 Q Okay. You're probably more familiar with  
15 Priority Mail. Priority Mail postage is determined by  
16 weight and zone for most pieces, is it not?

17 A Correct, as is most mail.

18 Q Are you aware of any special difficulties in  
19 determining the postage for Priority Mail which is  
20 also weighed and the zone determined to finally  
21 calculate the postage? Are you aware of any  
22 difficulties with that?

23 A The beauty of POS is the fact that you can  
24 enter the classes of mail and it calculates the rate  
25 based upon where it's going. If it's something that

1 doesn't have a zone issue you don't have to worry  
2 about zones. If it has zones, it's calculated in POS  
3 for it.

4 Q So that would be true? POS would be used  
5 then to calculate the postage for bound printed matter  
6 if it is a zoned and weight rated type of mail, just  
7 as it would be for Priority Mail, correct?

8 A Yes.

9 Q I'm now changing to still another area,  
10 again trying to take advantage of having somebody as  
11 expert and knowledgeable as you are today.

12 I wanted to talk to you about dim weight  
13 rating. Are you familiar with that term?

14 A I am.

15 Q Let me ask you. Does the Postal Service do  
16 any dim weight rating today?

17 A Dim weight rating today -- we do measure for  
18 non-machineable. We measure for balloon and surcharge  
19 for when it's too large.

20 I guess you would call that dim weighting to  
21 some extent, but I don't think it's in the term of dim  
22 weighting as we know it going into the next rate case,  
23 but I'm not positive.

24 Q Right. It sounds to me like for Priority  
25 Mail there's going to be an additional step employed

1 to determine the postage for Priority Mail, and that  
2 would be the step of dim weight rating. Is that  
3 correct?

4 A Correct.

5 Q Are you at all familiar with the steps that  
6 a clerk will have to follow to arrive at the dim  
7 weight of a Priority Mail piece?

8 A Well, I think it would be the same steps we  
9 do today on an oversize or balloon rate where you  
10 determine if it is a certain size.

11 We have a counter aid where today they  
12 actually lay it down and can look to see if it's over  
13 17 inches. If it shows up that way they'll take out a  
14 tape measure and measure the parcel, so it's not  
15 foreign to us from that standpoint.

16 In POS again we'd have to have a calculator  
17 in there that says here's length, width and girth or  
18 whatever those terms are. This is probably -- it's  
19 not new to us.

20 Q Do you know if there are any mail pieces  
21 today whose rates would be determined by a cubic  
22 volume calculation?

23 A I don't believe that exists today. Again,  
24 the balloon rate and the parcel surcharge is based on  
25 oversize, but I can't say that's based upon cube rate.

1                   Again, you'd have to ask somebody who's  
2           expert in that whether that's cube rate or not, but  
3           certainly it impacts the cost to us to move that so  
4           that's why we look at the cost. I don't think that's  
5           cube weight per se.

6           Q       Right. I mean, one way I guess of telling  
7           whether it is or not, does the clerk have to multiply  
8           length times width times height in making the balloon  
9           rate determination?

10          A       The POS terminal does that. I mean, they  
11       measure it, enter it, measure it, enter it, measure  
12       it, enter it.

13          Q       You don't know whether any multiplication  
14       takes place?

15          A       I don't believe that -- I guess you could  
16       have a manual office that doesn't have POS equipment,  
17       which is maybe 15,000 offices or maybe a little more  
18       than that that don't have the POS equipment, but those  
19       again are not our high volume offices where you were  
20       concerned about that, so there could be some  
21       multiplication in those.

22          Q       Let me just ask one more thing in connection  
23       with the dim weight calculation. Are you aware, or  
24       you can accept this subject to check, that after the  
25       cubic volume is determined that then there be a step

1       where division needs to take place?

2               The arithmetic operation of division needs  
3       to take place where the cubic volume would be divided  
4       by 194 inches per pound. Were you aware of that step  
5       that would be involved in dim weight rating?

6           A     No. No, because we were looking at  
7       automation doing that for us.

8           Q     Okay. Will dim weight rating take place at  
9       non-POS offices?

10          A     Yes.

11          Q     Do you have any plans now on how that will  
12       be accomplished in those offices that don't have POS?

13          A     We would issue instructions, use of a  
14       calculator or use of whatever type of equipment, and  
15       look at technological solutions if we could in those  
16       locations. In the very small office it's probably  
17       likely to be a calculator.

18               MS. DREIFUSS: Okay. By the way, I did want  
19       to alert our transcriptionist that POS I believe that  
20       we've been using is P-O-S.

21               THE WITNESS: Okay. Yes.

22               MS. DREIFUSS: That may have been a little  
23       bit confusing.

24               THE WITNESS: Sorry. I fell into the 30  
25       some years of using acronyms.

1 COMMISSIONER GOLDWAY: You might explain dim  
2 as well.

3 MS. DREIFUSS: I'm sorry?

4 COMMISSIONER GOLDWAY: Dim. You might  
5 explain what dim is.

6 MS. DREIFUSS: Dim I think is short for  
7 dimensional weight.

8 COMMISSIONER GOLDWAY: And is it D-I-M in  
9 the transcript?

10 MS. DREIFUSS: Yes, it is. It's D-I-M.  
11 That's correct. I didn't think about that, anybody  
12 not understanding that. Sorry.

13 MR. HOLLIES: While we're on that, POS is  
14 usually all caps too.

15 THE WITNESS: Yes.

16 MS. DREIFUSS: Okay.

17 THE WITNESS: Point of service.

18 BY MS. DREIFUSS:

19 Q The last questions I'm going to pose to you,  
20 let me explain why I'm going to be asking about this.  
21 You may or may not be aware that the Postal Service  
22 has performed a new econometric analysis -- it sounds  
23 a little complicated -- of the transaction variability  
24 time at retail windows.

25 A Uh-huh.

1           Q     I'm going to be asking you some questions to  
2     help us understand some of the things that witnesses  
3     had to do to put together a proper analysis.  Again,  
4     please accept this subject to check.

5                     One of the things that those witnesses had  
6     to do is they decided that they had to make a  
7     distinction between large offices and small offices to  
8     do the study, and I think that's actually consistent  
9     with what you said earlier on that you've got, just to  
10    give an example, a mystery window shopper program in  
11    8,000 offices, which are I suppose your largest  
12    offices.

13           A     Correct.

14           Q     And the remaining 26,000 are relatively  
15    small, so there are differences there.  Is that  
16    correct that there are differences between the 8,000  
17    where you have the mystery shopper program and the  
18    26,000 where you do not?

19           A     I'm not sure you can draw an absolute  
20    straight line between them.  I'm sure if you look at  
21    it there are some gray areas, but we are certainly  
22    focusing on our largest offices where you might have  
23    wait time in line problems and those types of things  
24    for a mystery shopper.

25           Q     From your years of experience and your

1     personal observation, do you know if a given window  
2     service transaction -- let me give you one example, a  
3     certified mail transaction.

4             Do you think it would be conducted  
5     differently in a large office as contrasted with a  
6     small office?

7             A     Boy, that's really a hard question to  
8     answer. I think every transaction could be conducted  
9     differently depending on the knowledge of the  
10    customer, what they're trying to accomplish.

11            I mean, there may be some person that walks  
12    up with a certified mail and has mailed, you know,  
13    hundreds of them over the years and said here, I want  
14    to get this out. I want to send it certified mail.

15            You may have other customers who come up and  
16    say gee, I don't know whether I want to send this  
17    registered or certified. I don't know how to send  
18    this, you know. What's the advantage to certified?  
19    The sales associate might explain it.

20            The transaction could vary depending upon  
21    the experience of the customer in using that product  
22    or service.

23            Q     And the customer knowledge characteristic.  
24    Do you think it would tend to be any different at a  
25    large office than at a small one?



1           A     I don't think in that case there would be  
2     much difference. Customers have different needs. You  
3     could have customers who understand it in the rural  
4     offices as well as they understand it in the major  
5     metro and vice versa.

6                     It's always best to try to find out what the  
7     customer needs are, and we work very hard at that to  
8     find out what the customer needs are so that they  
9     purchase and are given the right service that meets  
10    their needs.

11                    That's one of the things we've really  
12    focused on trying to do that in the last five or so  
13    years, really what are the customer needs, because I  
14    can't assume what you need. I need to have some  
15    interaction with you to try to understand what your  
16    needs are and sell you the right service and product.

17           Q     You mentioned earlier that wait time is a  
18    greater problem in large offices than in small  
19    offices. Is that generally correct?

20           A     I would say yes, even though we don't  
21    measure it. It's a given when you get into a busy  
22    area that probably your wait time is much more of a  
23    challenge.

24           Q     Again based on your experience, do you think  
25    that large offices tend to have a pretty steady stream

1 of transactions with very few intervals between those  
2 transactions?

3 A I don't think I can necessarily say that. I  
4 think they probably have more traffic over a given  
5 period a day, but there's some locations it may be  
6 very late in the afternoon, other places noontime.

7 A lot depends on the pattern of the  
8 community and the pattern of the commuters. When you  
9 get into a place like New York metro where a lot of  
10 people come in to work very late and you get other  
11 areas where people might do business on the way in in  
12 the morning, so that is why we try to look at the data  
13 that we have in our POS to determine actual traffic  
14 patterns for each office.

15 Q Have you ever noticed any differences in the  
16 amount of time needed in a large office versus a small  
17 one for a customer to approach the counter? Do you  
18 know whether that walk distance or walk time would  
19 tend to vary between large offices and small?

20 A I don't know whether I could relate it to  
21 that, but I think again you could have situations  
22 where it's a longer walk up to it, and you could have  
23 a handicapped person.

24 I mean, you could have a variety of things  
25 that would impact how long it takes a customer to get

1 up to the counter and conduct their business and leave  
2 the counter possibly as well.

3 Q Is there any kind of formal policy that  
4 you're aware of where clerks are expected -- I can  
5 think of two possibilities. I don't know if there's a  
6 policy or whether it might look like this, but let's  
7 say you've got a situation where customers are waiting  
8 in line, and the clerk has just finished business with  
9 one customer and about to start business with the  
10 next.

11 Do you know whether clerks are instructed to  
12 greet a customer as they approach the counter? Are  
13 they instructed instead to take that short period of  
14 time involved and possibly put away supplies,  
15 straighten up the work area? Is there policy on that?

16 A What we really try to do, and it's part of  
17 our mystery shopper program. I don't want to make a  
18 distinction between policy and practice, but we  
19 certainly encourage them to greet the people. In  
20 fact, that's part of our mystery shopper is how you're  
21 greeted.

22 Also, if there's a possibility of next in  
23 line or can I help you next, they might be turning  
24 around and putting a parcel into a hamper or something  
25 else. Our employees are very good. I mean, they're

1       rated very highly in customer satisfaction about how  
2       they handle a customer. Their goal is to try to move  
3       that customer through as quickly as possible.

4           Q     At the same time though, I mean, it might be  
5       necessary actually to do a little bit of business  
6       behind the counter before the customer actually walks  
7       up -- as you say, put a parcel away, put some supplies  
8       away. That could certainly happen?

9           A     Sure. Yes.

10          Q     Do you know if there is any or have you  
11       observed any seasonality to the length of time for  
12       window transactions? Does it tend to vary more let's  
13       say during the winter holiday season?

14                 Does there tend to be some difference at the  
15       winter holiday season at retail windows as contrasted  
16       with other times of the year?

17          A     I mean, our holiday season by far is the  
18       busiest part of our year. There's no question about  
19       that. We actually try to put as much resources as we  
20       can possibly put on to try to help customers.

21                 Oftentimes we'll have people approving a  
22       check in a lobby, which that wouldn't normally happen,  
23       to try to get that customer through the lobby as  
24       quickly as possible.

25          Q     Do you tend to use the lobby program more

1 during winter season than you do at other times of the  
2 year?

3 A Do you mean the lobby director or lobby --

4 Q Yes.

5 A I would say yes, you know, and at tax time  
6 or if we have a rate change and you're trying to get  
7 the stamps in the hands of the customer. Sure. That  
8 only makes sense.

9 In fact, we try to advise our managing  
10 supervisors that if they have certain periods other  
11 than that -- if there's real heavy periods -- if you  
12 can get somebody out in the lobby to help it always  
13 helps to move people through.

14 Q So the objective in that lobby program is  
15 actually to conduct some of the business actually  
16 while the customer is waiting in line, and that would  
17 mean less time spent at the window once a customer  
18 does arrive there?

19 A It's certainly to help them and help them  
20 make a decision, you know, whether they need  
21 insurance, whether they need delivery confirmation, if  
22 they need something, so if there's anything that needs  
23 to be filled out it's ready when they get to the  
24 window.

25 MS. DREIFUSS: Okay. Mr. Chairman, I have

1 no more questions. I thank Mr. Hintenach for being so  
2 helpful today.

3 CHAIRMAN OMAS: Thank you.

4 Is there any additional cross-examination?  
5 Mr. McKeever?

6 MR. MCKEEVER: Mr. Chairman, I do not have  
7 any additional cross-examination.

8 However, in the interest of developing an  
9 accurate record and with the Chair's permission there  
10 was a discussion concerning the policies and practices  
11 of private carriers with respect to protection against  
12 loss or damage.

13 Again, with the Chair's permission I could  
14 at least shed some light on that with respect to at  
15 least one private carrier if I may.

16 CHAIRMAN OMAS: We would appreciate that,  
17 Mr. McKeever.

18 MR. MCKEEVER: Mr. Chairman, when a shipper  
19 ships a package through United Parcel Service there is  
20 automatically protection for up to \$100 against loss  
21 or damage to the package so that if the package is  
22 lost and never delivered or if it is damaged there is  
23 protection automatically without the purchase of any  
24 additional protection up to that level of \$100.

25 The customer also has the option of

1 purchasing additional protection at an extra charge  
2 for every \$100 of additional protection desired  
3 against loss or damage of that package.

4 There is also for many and most of the  
5 services -- maybe all. I'm getting a little older and  
6 don't always keep up-to-date I guess as much as I  
7 should, but there is also a guarantee for timely  
8 delivery on many of the services so that if a package  
9 is not delivered on time the customer is entitled to a  
10 refund of the shipping charge, but they are two  
11 separate items, the protection against loss or damage  
12 versus where a package is delivered but not on time.

13 There is, as I said, a basic \$100 of  
14 protection against loss or damage at no extra charge  
15 with the option to pay additional to purchase  
16 additional protection above that \$100.

17 CHAIRMAN OMAS: Thank you, Mr. McKeever.

18 COMMISSIONER GOLDWAY: As my own experience,  
19 and I'm just one individual, was that insurance over  
20 the \$100 was not provided unless it was packed by the  
21 shipper. They weren't willing to accept my packing.  
22 What's the standard at UPS for that?

23 MR. MCKEEVER: The standard at UPS is that  
24 any package, regardless of who packs it, the shipper  
25 can purchase that additional protection. That is the

1 UPS practice. It does not have to be packed by UPS in  
2 order for you to have the option to purchase that  
3 additional protection.

4 There are, of course, postal outlet stores.  
5 If a customer deals with those stores they are  
6 different. They have different ownerships, some of  
7 them, Postal Plus, et cetera. They may have different  
8 policies, so I want to make it clear that I'm speaking  
9 only about the practice of United Parcel Service.

10 COMMISSIONER GOLDWAY: About your United  
11 Parcel Service. Okay.

12 MR. MCKEEVER: Yes, if a package is  
13 presented directly to UPS.

14 CHAIRMAN OMAS: Thank you, Mr. McKeever.

15 Mr. Hollies, would you like time with your  
16 witness?

17 COMMISSIONER GOLDWAY: I have some  
18 questions.

19 CHAIRMAN OMAS: Excuse me. Go ahead.

20 COMMISSIONER GOLDWAY: You know, on consumer  
21 issues I can't avoid having a couple of questions for  
22 you.

23 I'm really confused about how the POS helps  
24 you deal with waits in line. If there's one clerk and  
25 there are 20 people in line, your records will show



1 the clerk is working, taking one person at a time, at  
2 a time.

3 It won't tell you that there are 10 people  
4 in line before that person, nor will it tell you that  
5 you should have added four other clerks to help them  
6 because you might assume one person came in and then  
7 another person came in and then another person came  
8 in.

9 I don't get how POS helps you deal with  
10 making sure there are enough clerks in their stalls to  
11 help people in line. Could you explain that to me?

12 THE WITNESS: Yes. You're absolutely  
13 correct. I will try to do my best to tell you how  
14 many people are waiting in line.

15 All right. You can look at the amount of  
16 activity, and we look at it over a period of time. We  
17 can look at it in a day, a week, a month, average  
18 month, those types of things, to say how many people  
19 are coming in and what kind of business are they  
20 conducting.

21 Then we can look at what's the staffing on  
22 the window during that period of time, and then we can  
23 look at our mystery shopper and say gee, we're getting  
24 a lot of complaints out of X office that their waiting  
25 time in line is long.

1           So you can actually look at there's not a  
2     true "mathematical formula" to say how many people are  
3     waiting in line, but you can look at your activity in  
4     half hour increments and determine what kind of  
5     business you had during those half hours. Now, you'll  
6     eventually see that you'll probably have a wait time  
7     in line problem if you don't increase it.

8           COMMISSIONER GOLDWAY: Do you review the  
9     customer complaints that come in through the consumer  
10    office? What's the name, Office of Consumer Affairs?

11          THE WITNESS: Office of Consumer Affairs.

12          COMMISSIONER GOLDWAY: Do you look at those  
13    complaints? Do you get a report on those?

14          THE WITNESS: Oftentimes they will share  
15    those with us. I certainly look at what we find in  
16    the mystery shopper. I also look at individual  
17    letters that come in, I mean, like an individual  
18    letter that's referred from the PMG, or you might get  
19    something that's referred.

20          COMMISSIONER GOLDWAY: But you don't have a  
21    systematic way of evaluating all those thousands of  
22    complaints that come in to see whether they're about  
23    waiting in line and where they're coming from?

24          THE WITNESS: No. Systematic way? I don't  
25    know exactly how Consumer Affairs tracks those. I

1 know one thing. We don't want wait time in line.  
2 We're like every other retailer in business. It's a  
3 killer.

4 COMMISSIONER GOLDWAY: Yes, but you do have  
5 a wait time in line. I know you think it's less than  
6 it is, but, believe me, in California it's a wait  
7 time.

8 THE WITNESS: No, no. I'm not saying we  
9 don't have a wait time, but what we want to do is have  
10 the tools in place to address that and fix it without  
11 ever getting that complaint in.

12 COMMISSIONER GOLDWAY: Well, I'd write it  
13 down. Look at the complaints you're getting from the  
14 Office of Consumer Affairs and see where you can find  
15 hot spot problems there because I think they're there.

16 If you find that there are bottlenecks given  
17 the kind of ad hoc measurements you now have, do you  
18 have a policy that directs those retailer offices to  
19 put more staff on at particular times?

20 THE WITNESS: Well, let me break that up a  
21 couple ways. One, it is part of a performance  
22 evaluation for the office on wait time in line. In  
23 mystery shops that are conducted, wait time in line is  
24 a major element in performance pay from the standpoint  
25 of how are they doing in their service. It's a

1 contributor towards what they receive.

2 We give them the tools to make those  
3 decisions. It's hard to direct 3,000 or 15,000 or  
4 8,000 offices where we do measure it significantly to  
5 say from this level you're doing that, but what we do  
6 do is we look for trends. Certainly we have offices  
7 that we might see up here, and we try to stay on  
8 those.

9 The other thing is some offices don't have  
10 the capacity, and then you look for alternate access  
11 or other ways for the customer to conduct business  
12 with us. It might be on their computer. It might be  
13 at a contract processing unit. It might be through an  
14 automated postal center. It might be through stamps  
15 on consignment. There are issues where you try to  
16 find solutions to let the customer do business with  
17 you.

18 COMMISSIONER GOLDWAY: Okay. One of the  
19 evaluations is wait time, but isn't there also an  
20 evaluation for reducing employee costs?

21 THE WITNESS: Yes, but I don't think they're  
22 mutually exclusive. That's why we're looking at the  
23 tools we have on staffing and scheduling, I mean, as  
24 far as it applies where you look at the workload, you  
25 look at what the staff is.

1           We're also looking to obviously reduce costs  
2   and provide the lowest cost to our customers and to  
3   the citizens of the United States who are also looking  
4   at where we have to improve service, how we attack  
5   that.

6           COMMISSIONER GOLDWAY: Do you have any  
7   thoughts on why the measurements in this rate case  
8   seem to indicate that window service costs have gone  
9   up by 50 percent?

10          THE WITNESS: I did not get involved in the  
11   calculation, but I think my simple answer would be if  
12   that's the case is that we're having much more complex  
13   transactions at our windows than we did before.

14          It's not the stamp sales. Well, all of it  
15   is predominantly stamp sales, a lot more package  
16   business and a lot more complexity, the complexity of  
17   helping the customer make the decisions they need to  
18   make to connect their mailing business.

19          COMMISSIONER GOLDWAY: But we do have these  
20   automated postal centers now, and they're also  
21   supposed to be helping people with parcels, aren't  
22   they?

23          THE WITNESS: That is correct.

24          COMMISSIONER GOLDWAY: And if that's the  
25   case and you get your parcel label all taken care of,

1 all you have to do is put it through the glass window,  
2 right, so that should be a simpler transaction.

3 THE WITNESS: In those locations typically  
4 there's 2,500 -- well, 2,490 some -- that are actually  
5 in postal locations out of our 34,000, out of our  
6 8,000 busiest.

7 In those locations a lot of times they are  
8 high growth areas where there's a lot of business  
9 traffic. It absolutely helps with that. It helps  
10 reduce wait time in line. Those offices are still  
11 extremely busy for the most part.

12 COMMISSIONER GOLDWAY: When you measure your  
13 larger offices versus your smaller offices it's not  
14 square footage of the office. How do you measure  
15 what's a large office versus a small office?

16 THE WITNESS: When we look at a larger  
17 office it is typically based upon the amount of  
18 revenue that that office generates and the amount of  
19 business traffic.

20 When we deployed POS it was based upon our  
21 busiest offices that we would put that in, the  
22 automation first, and that goes back to 1997 when we  
23 didn't have any of this data that we're talking about  
24 today.

25 COMMISSIONER GOLDWAY: Do your POS machines

1       measure the time the clerk begins a transaction and  
2       the time the clerk ends the transaction?

3               THE WITNESS: It will begin when the clerk  
4       hits the key. They may have some interaction with the  
5       customer beforehand as they're greeting them and  
6       they're coming up to the counter and trying to find  
7       out.

8               The customer may come up with a parcel and  
9       say I don't know how to send this. How do I send  
10      this? It has to get there in two to three days, or it  
11      has to get there overnight. I've got something  
12      valuable in here, da-da-da.

13              Okay. I'd like to suggest that you use  
14      Priority Mail or Express Mail based upon your needs.  
15      Then they might start hitting the keys. The customer  
16      may say gee, I'd like to see what my options are, and  
17      you go through that.

18              It's not an absolute when they hit that key.  
19      Sometimes they have to find out what the customer  
20      wants.

21              COMMISSIONER GOLDWAY: After they hit the  
22      key, that's when they can also show on the screen the  
23      various options that the customer has?

24              THE WITNESS: That is correct.

25              COMMISSIONER GOLDWAY: Or they can help the

1 customer with some extra scotch tape on a package or  
2 something like that before they finish it?

3 THE WITNESS: That could all happen.

4 COMMISSIONER GOLDWAY: Is there a way that  
5 you measure the time of a transaction or some part of  
6 the time of a transaction?

7 THE WITNESS: We measure once we start the  
8 activity of helping the customer make a decision once  
9 we find out what they want. There's not an absolute.  
10 One person might hit a key earlier than another person  
11 hits a key, but the idea is to try to find out what  
12 the customer wants and what they need.

13 Or, as we've been told a number of times,  
14 you guys are the professionals. Help me make a  
15 decision on how I should send this.

16 COMMISSIONER GOLDWAY: I was reading this  
17 morning in the *Financial Review* that Starbucks, which  
18 is my prime example of how people are happy to wait in  
19 line, had lower revenue growth than normal in July  
20 because they figured that it was taking longer for  
21 their clerks to make the Frappuccinos than it does to  
22 make the hot coffee, and therefore some people left.  
23 They didn't wait.

24 Do you know whether people actually leave  
25 the post office and say I'm going to go across the



1 street to MailBoxes, Etc. or the UPS Store because  
2 this line is so long?

3 THE WITNESS: I don't have any data that  
4 supports that.

5 COMMISSIONER GOLDWAY: Do you have any way  
6 to measure that? I mean, when you have a mystery  
7 shopper does the mystery shopper look at who walks in  
8 and out of the store as well, or do you have kind of  
9 instead of people who just wait in line do you have  
10 people who look?

11 Do you have other people who go and look in  
12 their retail shops to see if they're neat and clean,  
13 if the signs are up, if people are walking in and out?  
14 Do you have other programs to make sure there are  
15 standards so you don't lose customers?

16 THE WITNESS: Well, that's why we have a  
17 standard that we try and achieve, which is waiting  
18 time of five minutes or less. That's part of our  
19 mystery shop.

20 COMMISSIONER GOLDWAY: But you don't have  
21 any way of knowing whether people are saying this is  
22 too long and I'm leaving?

23 THE WITNESS: I suspect if you get a very  
24 long line the consumer is no different than I am that  
25 you might walk out if you don't get fast service

1 That's why we're trying to avoid that, ma'am.

2 COMMISSIONER GOLDWAY: So even with the POS  
3 then a customer could wait for information and  
4 discussion with a clerk for five or 10 minutes before  
5 you actually know? In other words, a transaction can  
6 take a lot longer than the POS would show you?

7 THE WITNESS: Again, I didn't do the cost  
8 study per se on this, but I think that they looked at  
9 and observed the whole interaction of the customer  
10 coming up to the counter and the transaction, but I'm  
11 not the expert on that. I didn't put that together.

12 COMMISSIONER GOLDWAY: So when they were  
13 doing the window service they're probably adding all  
14 that additional time?

15 THE WITNESS: I don't know the answer to  
16 that. I think they looked at it because that's part  
17 of the customer interaction while they get up to the  
18 counter, conduct their business at the counter and  
19 leave the counter.

20 COMMISSIONER GOLDWAY: Are there any new  
21 programs that you're thinking of to improve the wait  
22 time in the next year or two?

23 THE WITNESS: I think we've spent a lot in  
24 the past from the standpoint of we have a lot more  
25 information on-line, the ability to conduct a lot more

1 business on-line like our carrier pickup.

2 We have our consignment program, which has  
3 grown, where customers can purchase their stamps at  
4 locations -- we're all from this area -- like Giant,  
5 Safeway, those types of locations.

6 We have the ability of the automated postal  
7 center for the customers to come in and serve  
8 themselves, and we're always looking for ways to make  
9 it easier for the customer to conduct business with  
10 us.

11 The customer is going to choose whether they  
12 want to do business. If they feel they need face-to-  
13 face they're going to come in the post office. If  
14 they feel that they want to do it on-line, oftentimes  
15 they will do it on-line because they may be working  
16 out of their home.

17 We're trying to find ways for the customers  
18 to access us. It wasn't that many years ago we were  
19 all brick and mortar. If you go back to like 1985 we  
20 had some contract units, but we were basically all  
21 brick and mortar at that time.

22 COMMISSIONER GOLDWAY: When you say you're  
23 in charge of customer service and it includes retail  
24 and all these other programs --

25 THE WITNESS: I actually had the brick and

1 mortar piece, but I'm part of the organization that  
2 has all of the alternate access as well.

3 Marketing has carrier pickup, the carrier  
4 pickup program, but the carriers pick it up so it's  
5 all part of the organization.

6 COMMISSIONER GOLDWAY: When you count  
7 customer transactions you have a certain number that  
8 come in through the retail, and then there are all  
9 these others you described.

10 Is there a number of retail transactions?  
11 Have they increased or decreased over time?

12 THE WITNESS: Well, we add on well over a  
13 million deliveries a year, so your customer is  
14 constantly increasing. You could have single  
15 transactions. You could have multiple transactions.  
16 The customer can come up, mail a parcel and buy a book  
17 of stamps. Another customer could just buy a book of  
18 stamps.

19 We could look in each of the channels, but  
20 we know the business conducted in each of those  
21 channels.

22 CHAIRMAN OMAS: Excuse me. Could you just  
23 move away from the mic? You don't need to stay that  
24 close to the mic.

25 THE WITNESS: All right.

1 CHAIRMAN OMAS: Thank you.

2 COMMISSIONER GOLDWAY: But there must be a  
3 way to count. Okay. The clerk has done X number of  
4 transactions, and that's with people one has to  
5 imagine.

6 THE WITNESS: I'm sorry. I thought you were  
7 talking about the universe. Yes.

8 COMMISSIONER GOLDWAY: And then there are  
9 these other transactions that occur on-line or in  
10 consignment shops, you know, so do you have a way of  
11 knowing? I guess in a consignment shop you just know  
12 the bulk of stamps that have been sold?

13 THE WITNESS: We know how many booklets of  
14 stamps.

15 COMMISSIONER GOLDWAY: But not whether  
16 they've been sold 100 at a time or 500 at once, right?

17 I mean, I'm trying to get a sense of how  
18 many customers -- people -- are now using these other  
19 options rather than the brick and mortar and whether  
20 brick and mortar has declined in number, the number of  
21 people walking into the post office has declined in  
22 number or not.

23 THE WITNESS: See, the challenge of that is  
24 again the population is growing, so while you may  
25 shift a number of transactions to alternate access you

1 still have the population in your business base  
2 growing, so there may be cases where --

3 COMMISSIONER GOLDWAY: And you can see  
4 whether it's growing less than it was before.

5 THE WITNESS: Yes.

6 COMMISSIONER GOLDWAY: The population isn't  
7 growing that much more.

8 THE WITNESS: I mean, we can look at POS and  
9 tell the transactions that were counted. That's how  
10 we know I sold a book of stamps, I sold Priority Mail.  
11 Those types of things our POS tell us, so we know. We  
12 can look at transactions.

13 You can go into southwestern California  
14 where there's high growth, and you may find some  
15 locations where transactions have actually gone up.  
16 You might find other locations where the transactions  
17 have gone down. You know, it varies from location to  
18 location.

19 COMMISSIONER GOLDWAY: You don't know really  
20 the total? You can't say we've got 34,000 post  
21 offices, and we've had X number of transactions  
22 nationwide. Therefore, on average we're servicing  
23 more people -- I mean, obviously there are more people  
24 per post office -- or fewer people per post office  
25 than we did before?

1 THE WITNESS: I believe we could come up  
2 with an overall for the POS locations, the 15,000 POS  
3 locations, of a total transaction number. I believe  
4 we could come up with a number. We've really focused  
5 on the individual office because they fluctuate.

6 COMMISSIONER GOLDWAY: Okay. Thanks.

7 THE WITNESS: I just don't have that at the  
8 tip of my tongue.

9 COMMISSIONER GOLDWAY: Thank you for your  
10 information. I appreciate it.

11 CHAIRMAN OMAS: There doesn't seem to be any  
12 other questions from the bench.

13 Is there anyone else who wishes to cross-  
14 examine?

15 (No response.)

16 CHAIRMAN OMAS: Mr. Hollies, would you like  
17 time with your witness?

18 MR. HOLLIES: I would like a few minutes,  
19 say five?

20 CHAIRMAN OMAS: Five minutes. Thank you.

21 (Whereupon, a short recess was taken.)

22 CHAIRMAN OMAS: Mr. Hollies?

23 MR. HOLLIES: The Postal Service does not  
24 have any redirect. Thank you.

25 CHAIRMAN OMAS: Thank you.

1                   Mr. Hintenach, that concludes your testimony  
2 here today. We thank you for your contribution to the  
3 record, and you are now excused.

4                   THE WITNESS: Thank you.

5                   (Witness excused.)

6                   CHAIRMAN OMAS: This concludes today's  
7 hearing. We will reconvene at Monday morning at  
8 9:30 a.m. when we will receive testimony from Postal  
9 Service Witness Hunter, Nash, Schroeder, Kelley,  
10 Berkeley, Scherer and -- I know I'm going to do death  
11 to this -- Abdirahman. I'm sorry. I'll welcome him.  
12 I'll have it phonetically down by the time he gets  
13 here.

14                   Thank you all very much, and we look forward  
15 to seeing you on Monday. This hearing is adjourned.

16                   (Whereupon, at 11:37 a.m. the hearing in the  
17 above-entitled matter was adjourned, to reconvene at  
18 9:30 a.m. on Monday, August 7, 2006.)

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HEARING DATE: 8/4/06  
LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission

Date: 8/4/06

Benedict J. Helms

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